

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal lying between the two giant countries, India and China, is one of the landlocked countries, and survives with her own natural beauty in Asia. Its half-century of experiments and efforts to raise the quality of life of its populace is defeated. Almost half of its population lies under absolute poverty line, especially living in the rural areas are deprived of even basic needs and facilities like enough calories pure drinking water sanitation facilities, electricity, road facility etc. Some of the basic human indicators like life expectancy, literacy, nutrition level etc. also show that Nepal occupies among the poor developing nation. Actually, slow pace of developing of Nepal is due to nothing but landlocked position, poor resources mobilization and its utilization, weak infrastructure development and more over unstable eco-political environment.

Banking plays significant role in the economic development of a country. Bank is a means for the economic development which maintains the self-confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing. Main objectives of commercial banks are to mobilize idle resources into the most profitable sector after collecting them from scattered sources.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

The role of money in an economy is very important. Proper and well planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affect the growth of

economy. Hence, Money is the topic to manage and banks are the manager. The existence of a bank is for the change in every aspect of human being and its presence is for the upliftment of people, hence banks are the back bone of the economy.

Assets and liabilities are the two major parts of balance sheet of commercial bank. Cash reserves, deposits to other banks, investment in securities, loan and advances and other assets comprise the total assets. Liabilities comprise public deposits, borrowings, other current liabilities and share capital. As this study is focused with the Non-performing Asset (NPA), it is mainly concerned with the assets of bank. Generally, the loan advances occupy more than two third parts of assets of bank in balance-sheet and it is found that they produce more than half of bank revenues. Therefore, in practice loan quality is mostly studied as assets quality. In banking literature, loan is often found synonymously used to assets. According to "onsite inspection manual, for Commercial Banks Finance Companies, Volume-two", published by Nepal Rastra Bank, the study of asset quality is mainly concerned with loans quality. So, it should be clear that assets are used to indicate the meaning of loan.

Since this study is mainly concerned with loan, some facts are highlighted regarding loan. The deposits of public create loan-able fund. Banks make their profit by issuing loans. But loans also have higher probability of default than other assets. The loans, which are actively working gives well, return to the banks. The default loans cause the loss in return to the bank. For the strength and stability of banking system, the assets/loan should yield positive returns. The assets/loans, which do not yield positive returns, become Non-performing Assets (NPA). In a narrow sense, Non-performing Assets, NPA refer to loan and advances, which do not yield any positive, return or contribute to the profit of banks. In a broader sense, NPA includes the unutilized cash balances, physical assets and the workforce. In this study major concern is with the narrow sense of NPA, which means the loan/assets that do not yield positive return in cash.

It is well known that the loans, which do not yield positive return in cash, are NPA since the loans do not yield positive returns in cash, it has direct effect to lender bank. In this situation bank can not pay the interest to the depositors and dividend to the share holders. If the interest income which has to maintain the operational

expenses including depositor's interest and share holders' expectations could not be regularized, it may have great financial effect to the bank. On one hand the outstanding interest is not allowed to show as income and on the other hand loan and advances become non-performing, which creates the situation of additional expenses to profit and loss account of bank. As a result there may be significant effect in the financial position of the bank" (Adhikari, 1993, Page no: 167)

Nepal is an undeveloped country having very low per capita income and corporate growth rate. The traditional concept of business and commerce is deep rooted in the people and most of them are unaware of modern form of commerce. Majority of population live below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factors like land locked ness, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies, political instability, Maoists problem etc. are responsible for the slow pace of development in Nepal.

But after the restoration of democracy in 1990 and universal echo of economic liberalization, Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in the financial sector whose contribution in economy has great significance.

In Nepal, the industrial revolution took after the establishment of Biratnagar Jute Mill in 1993 B.S. (1936 A.D.) and in 1994 B.S. (1937 A.D.) Nepal Bank Limited was established. Nepal Rastra Bank was established in 2013 B.S. (1956 A.D.), which has helped to make banking system more systematic and dynamic during that time. In 2022 B.S.(1965 A.D.) Rastriya Banijya Bank was established which is fully government owned bank. His Majesty's Government with the view of accelerate the pace of economic development under the structural adjustment program undertook a significant step towards financial liberalization in the year 2043/44 B.S. (1986/87 A.D.) The liberalization policy of the government of Nepal has encouraged the private sector to invest in various fields, which support the domestic overall economic growth. The government of Nepal introduced financial sector reforms in 1980s, which encouraged the healthy competition in the financial sector as well as

allowed the entry of foreign banks in the Nepalese market in the forms of joint ventures banks. (Shakespeare Vaidya, 1996, page no: 67).

Definition of NPA

To define NPA first of all meaning of Assets should be understood. Assets mean the property of a person or a company. This indicates that assets are the property of a company accumulated with the help of sources.

Non Performing Assets (NPA) means the amount of loan that the individual commercial banks had provided and the customer has not paid in until the time already matured. The distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing assets for the banks.

1.2 Focus of the Study

Non Performing Assets [NPA] means the amount of loan that the individual commercial banks had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing Assets for the bank. Commercial banks are losing their profitability because of non performing assets.

In every commercial bank's profitability is affected by the Non performing assets of the banks. The main focus of this study is to examine the level and the impact of the NPA on profitability of the commercial banks and the proper management of non performing assets of the commercial banks. In same way the study will also be focused on non performing assets regarding made in the past five years of six sample banks.

1.3 Statement of Problem

Nepalese commercial banking industry is still under the developing condition. They have to follow all the rules and regulations or the directives issued by the Rastra Bank of Nepal, the central bank of the country. The core banking business is mobilizing the deposits and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth. However, lending also carries credit risk, which arises from the failure of borrowers to fulfill

its contractual obligation during the course of transaction. It is well known that the bank and financial institutions in Nepal face the problem of swelling non-performing assets and the issue is becoming more and more unmanageable. The total NPA in the banking system is 14.2 percent of total loan in year 2063 B.S. (2006A.D.) while it was 18.7 percent of total loan in year 2062 B.S. (2005A.D.) While it is even worse in case of two largest commercial banks: Rastriya Banijya Bank and the Nepal Bank Limited are 45.3 and 25.1 percent respectively in the year 2063. (Year book, NRB, 2063/64)

The following are the research question of this study:

-) What is the overall impact of the NPA on the profitability of the commercial banks under the study?
-) Is there any relationship between NPA and the profitability of the commercial banks and the other non-banking assets, [NBA]
-) Whether the Nepalese commercial banks are following the NRB directives regarding non performing assets or not.
-) What might be the other factors that influence the non-performing assets of the commercial banks in the banking industry of Nepal?

1.4 Objectives of the Study

Every research study is conducted with a view of achieving some objectives and this study is of no exception. The main objective of this study is to examine of the management of NPA of sample banks. The specific objectives of this study are as follows:

-) To study and evaluate the relationship between the profitability and the non-performing assets of selected commercial banks.
-) To study the proportion of NPAs to total assets, total deposits and total lending of selected banks under study.
-) To examine whether the Nepalese commercial banks are following the NRB directives regarding non performing assets or not.
-) To analyze proportion of the non-performing assets / non-performing loan to total loan of the banks under study.

1.5 Significance of the Study

Banking habit has been an inseparable part of modern people. Whether it is in industrial sector or personal life it has served a lot. For the safety of the depositors along with fulfillment of the need groups, banking behavior has served well. Since commercial banks are the bridge between savers and need group of money, there should be balance between the desires of these two groups. In other words depositors get nothing unless deposits are flowed as loan and advances to borrowers and paid back interest to the depositors. But it is not always true that all loan and advances yield positive income to banks. In practice, there is certain probability of becoming default rate in loan and advances. Such defaulted loan and advances are known a NPA and they create risk.

Generally, it is found that the loan and advances occupy 60 percent of the commercial banks' assets. The income of the commercial bank is covered by interest income earned to loan and advances on one hand, has to maintain the provision against such loan and advances. So, defaulted loan and advances has double effects: minimizing the income of bank and unsafe risk of deposits.

Success of any banks doesn't depend on how much money a bank can lend? But it depend quality of the loan. Therefore we can say that the success of the bank depends upon the amount of its performing assets/loans.

This study mainly concerned with the analysis of the NPA to total assets, total deposits and total lending of Nepalese commercial banks. Therefore it is significant to find out the level of NPAs. It is also significant to find out whether Nepalese commercial banks have maintained loan loss provision according to NRB directives or not. Lastly it also provides literature to the scholars and new researchers who want to do further researcher in this field

Since the study was on the background of the above stated facts, mainly it helped to identify the NPAs to total assets, total lending and total deposit of the banks

1.6 Limitation of the Study

The following are some limitations of the study:

) The study is concentrated only on commercial banks of Nepal.

-) Profitability of an organization is affected by many other factors but the study is concerned with only those factors, which are directly affected by the non-performing assets of the commercial banks.
-) This study is concerned only with NPA of Nepalese Commercial Banks. It does not consider other financial aspects of the banks
-) The whole study is mainly based on secondary data.
-) The whole study is based on the data of only five years (F/Y 2004/05 to 2008/09).
-) The study covers only six commercial banks of the Nepalese banking industry.

1.7 Organization of the Study

The study has been organized into five chapters. The title of each of these chapters is as follows:

CHAPTER I Introduction

Introduction chapter comprises background of the study, focus of the study, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

CHAPTER II Review of literature

This chapter is concerned with the review of relevant literatures available in the books, journals, articles, research reports, newspapers, magazines, policy documents which are published or unpublished.

CHAPTER III Research methodology

Research methodology deals with the method of investigation and includes research design, nature of the data, data collection procedure and tools used.

CHAPTER IV Presentation and analysis of data and major findings

Data presentation and analysis of data deal with different statistical and the financial tools that used in the analysis of the data.

CHAPTER V Summary, conclusion and recommendations

Last chapter includes the summary based on major findings of the study, conclusion based on summary and recommendation based on major findings and summary and whole study.

CHAPTER II

REVIEW OF THE LITERATURE

This chapter is concerned with the review of relevant literatures available in the books, journals, articles, research reports, newspapers, magazines, policy documents which are published or unpublished. Every study is very much based on past knowledge, study and experiences. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Various thesis works have done in different aspects of non performing assets of different organization are also reviewed for the purpose of justifying the study. This chapter consists of two parts-theoretical Framework and Review of Related Studies. In theoretical framework, review of what has been written in academic books is carried out while review of related studies is further divided into review of journals and review of master degree thesis.

2.1 Conceptual framework

2.1.1 Meaning and origin of bank

In general a bank is referred to as an institution that deals with money, currency and bullion. It collects the deposits in the form of currency and gold from the savers and supplies to the people in demand of money with different terms and conditions as to the interest and repayment. Hence it pays interest to the depositors as consideration to the money received and charges different levies in the form of processing fees, commissions, interests etc., from the people who have taken loan from it. At the same time it in the request of its customers, discounts the bills, gives guarantee, issues letter of credit, investing in different securities, underwriting of securities etc. The word BANK has been derived from Italian word, “Banco” which in Italian means a BENCH. Since the people who dealt in money used to do their work whilst sat on bench the trade that they were carrying was called as ‘Banco’, which in the due course got modified into BANK. (Pandey, 2004, Page No:2)

R.S. Sayers defined the bank as, “Ordinary banking business consists of changing cash for deposits and bank deposits for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmen to

repay etc.” Walter Leaf defined the bank as, “A bank is that institution or individual who is always ready to service money on deposits to be returned against the cheque of their depositors.” And Horace White puts bank in his words as, “Bank is a manufacturer of credit and machine for facilitating exchanges.” G. Crowther says, “A bank is an institution ,which collects money from those who have it spare or who are saving it out of their income and lends this out to those who require it,.” Dr. H. L. Hart exclaims, “A banker is one who, in the ordinary course of his business, receives money which he repays by honoring cheques of persons from whom or on who account he receives it.” (Subedi B.R, Poudel S, Nupane D, "Banking and insurance-2065, Page No: 2,3)

The first renowned bank was called the “Bank of Venice”, set up in Venice, Italy in the year 1157 A.D. The Bank of Barcelona and the Bank of Genoa were established in the year 1401 A.D. and 1407 A.D. respectively. In England the banking embarked on with English Goldsmith only after 1640 A.D. The Bank of Amsterdam was the grandest bank during the 17th Century.

2.2 Concepts of Commercial Banks

Commercial banks are the heart of the financial system. They hold deposits of many persons, government establishments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms, and government units in doing so they assist both the flow of goods and services from the producers to consumers. They dispense the large portion of medium through which monetary policy is affected. This shows the consequential role in the smooth functioning of the economy.

Commercial banks play the most important role in the modern economic organization. Their businesses mainly consist of receiving deposits, giving loans and financing the trade of a country. They provide short-term credit i.e., lend money for short period. According to the American Institute of Banking, “Commercial Banks is a corporation that accepts demand deposits subject to check and makes short-term loans to business enterprise regarding of the scope of its other services.”

In the Nepalese context, the Nepal Commercial Bank Act, 2031 B.S. (1974 A.D.) defines, “A commercial bank is one which exchanges money, deposits money,

accepts deposits, grant loans and performs commercial banking functions.”
(Commercial banks act, 2031)

In the like manner, various writers on banking have defined the bank in different ways. Since a modern bank performs number of functions. So, it has become very difficult to give a precious definition of a commercial bank.

2.2.1 Evolution of banking system in Nepal

There are several types of banks but among them commercial banks play significant contribution in the financial system of the country. They pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from public on condition that they are repaid on demand or on short notice. Their business is confined to financing the short-term and medium term needs of trade and industry such as working capital financing.

Commercial Bank Act, 2031 B.S. (1974A.D.) of Nepal has defined the commercial banks as an organization, which exchanges money, accepts, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.

It is the fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transactions were in practice as undertaken by some moneylenders like Sahu-Mahajans, Jamindars, relatives, friends, and few informal organizations limited to ethnic group such as Guthi. The borrowing from the other and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security. Thus, the private moneylenders can be taken as forerunner of the concept of financial institution.

However, the private money lenders supported the economic development of a country, the transactions undertaken by them was totally based on their personal understanding. No legal restriction was against them and their monopolies in transactions were the reasons for covering the interest in personal understandings

and exploiting the people. Thus, it was then realized the need to establish financial intermediaries in supporting the economic development of a country.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Malla, Ranas, and Shahs. Mostly Kirati, Lichchhavi and Malla regimes, who were concerned with the construction of temples, Pati-Pouwa, Chautaris, etc. At that period neither the people nor the government needed to think about the economic development of the country. According to ancient “Vanshawali” in fourteenth century, the ruler of the Kathmandu Jayasthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadhari’s were said to have carried out the borrowing and lending of money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal.

After long time, during the Rana regime, only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1936A.D.) ‘Tejarath Adda’ was established during the tenure of Prime Minister Ranoddip Singh Rana as a first institutionized credit house. Tejarath Adda provided loans under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it rendered a good service to the government employees as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal.

No financial institutions were established over a long period due to political reasons. To fulfill the growing need of economy in Nepal, banking activities were performed only after the establishment of Nepal Bank Limited in 1994 B.S. (1937A.D.) as the first commercial bank in Nepal. This bank was established under the Nepal Bank Act 1994 B.S. (1937A.D.).

At beginning, 49% of the ownership belongs to the promoters as well as general public and remaining belongs to government. The incorporation of Nepal Bank Ltd. is the real starting of the banking institution in Nepal? The bank started the act of consolidating the scattered capital since its establishment in order to mobilize it in productive sector. It developed systematic tradition in culture of modern banking system in Nepal. Such system could be able to establish a strong base for the enlistment of national economy. Beside, it also acted as central bank for more than three decades.

Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (26 April 1956 A.D.) under Nepal Rastra Bank Act, 2012 B.S. (1955 A.D.), the central bank of Nepal. It is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country. (nrb.html.,2009)

After a long period, the second commercial bank namely Rastriya Banijya Bank (RBB) has been established in 2022 B.S. (1965 A.D.) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. (1964 A.D.) Both Nepal Bank Limited. (NBL) and Rastriya Banijya Bank (RBB) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted in terms of capital formation to the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, and commercial sector in the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. (1976 A.D.) to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, trade and make a available banking services to the country and people.

Among vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. (1982 A.D.) And, decided to allow foreign banks to operate their activities in Nepal in “joint venture model”. Joint Venture Banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum

satisfaction. Basically at that time, it was envisioned that joint venture banks (JVBs) would support the country in various ways.

In Nepalese context the main purpose of joint venture is to develop economic forces in order to achieve distinguished results, which the partners separately could not achieve. Nowadays, joint venture banks (JVBs) are playing a dynamic and vital role in economic development of the country.

Nabil Bank Ltd. is the first joint venture bank established in 2041 B.S. (1984 A.D.) and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint venture bank established in 2042 B.S. (1985 A.D.) with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank Nepal is operated in 2044 B.S. (1987 A.D.)

With the satisfactory result of joint venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present, Nepal Industrial and Commercial Bank (NIC), Lumbini Bank Ltd., Machhapuchhre Bank Ltd., Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., Kumari Bank Ltd. came into operation with cent percent domestic investment by Nepalese promoters which are the plus point of development of banking sector of Nepal. Now, there is a strong competition between commercial banks for the existence so that the growing needs of the customers can easily be achieved.

2.2.2 Function of Commercial Banks

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, "Principally, commercial banks accept deposits, provide loans, primarily to business firms thereby facilitating the transfer of funds in the economy". Although, in the yester years banks were viewed as acceptors of deposits then providers of loans, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their

operation cannot be underemphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organization.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Bank Act 2031 B.S. (1974 A.D.).

Primary Functions

Accepting Deposits:

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:

-) Fixed Deposit Account
-) Current Deposit Account
-) Saving Account

Advancing of Loans

Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:

-) Overdraft
-) Cash Credit
-) Direct loan with collateral
-) Discounting of bills of exchange
-) Loans of money at call and short notice

General Utility Functions

Commercial banks also perform general utility functions such as:

-) Issuing of letter of credit to its customers.

-) Issuing of bank drafts and traveler's cheque etc., for transfer of funds from one place to another.
-) Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
-) Serving as referred to the financial standing and credit worthiness of its customers.
-) Underwriting loans to be raised by public bodies and corporations.
-) Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
-) Acting as a trustee and executing the will of the deceased.
-) Remittance of money

Agency Function:

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:

-) Collection of customer's money from other banks.
-) Receipt and payment of dividend, interest.
-) Security brokerage service.
-) Financial advisory service.
-) To underwrite the government and private securities.

2.3 Some Important Terms:

2.3.1 Definition of loan and advances

Loan is defined as a thing that is lent esp. a sum of money. Likewise, debt means a sum of money owed to somebody. However, in financial terms loan or debt means principal or interest available to the borrower against the security. Debt means the money that bank owes or will lend to individual or person.

Likewise, the term loan is defined as a lending. Delivery by one party to and receipt by another party of sum of money upon agreement expressed to implied, to repay it with or without interest. Any thing furnished for temporary use to a person at his request on condition that it shall be returned, or it's equivalent in kind, with or without compensation for its use. Loan includes:

-) The creation of debt by lender's payment of or agreement to pay money to the debtor or to a third party for the account of the debtor.
-) The creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately.
-) The creation of debt pursuant to a lender credit card or similar arrangement.
-) The forbearance of debt arising from a loan.(Koirala, 2006, Page no: 35 - 36)

Further, debt means 'Principal and interest provided to debtor by banks or financial institutions, with or without the pledge of immovable or moveable property of other securities of guarantees or without guarantee, and the word also mean over dues of the transactions beyond balance or fees, commission and interest incurred in that relation (Debt recovery act for Bank and Financial Institutions).

The supreme court of India has defined the debt during the decision of the case of United Bank of India vs. DRT. Sudhir Gupta states that "In the case in hand, there cannot be any dispute that the expression 'debt' has to be given the widest amplitude to mean any liability which is alleged as dues from any person by a bank during the course of any business activities undertaken by the bank either in cash or otherwise, whether secured or unsecured, whether payable under a decree or other of any court or otherwise and legally recoverable on the date of the application.

2.3.2 Concepts of Non Performing Assets

Non Performing Assets [NPA] means the amount of loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non Performing Assets for the bank. Reduction of NPA has always been a significant problem for every commercial bank. NPA may be defined broadly as the Bad Debt; however, it in terms of banking sector consists of those loans and advances which are not performing well and likely to be turn as bad debt. NPA as per the current directives of Nepal Rastra Bank, NRB, has been categorized as classified loans and advances. NPA has severe impacts on the financial institutions. On the one hand, the Investment becomes worthless as expected return cannot be realized and on the other, due to the provision required for the risk mitigation the profitability is directly affected. The

existence of the bank can be questioned in this situation. Thus, interest along with principal has to be recovered timely and without any obstacles.

Loans and Advances dominate the assets side of balance sheet of any bank. Similarly, earning from such loans and advances occupy major space in income statement of the banks. However it is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of the loan and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non-performing loans erodes even existing capital.

Performing assets are those loans that repay principal and interest to the bank from the cash flow it generates. Loans are risky assets, though a bank interest most of its resources in granting loans and advances. If an individual bank has around 10% non-performing assets or loans, it sounds the death knell of that bank other remaining the same. The objectives of sound loan policy are to maintain the financial health of the banks, which result in safety of depositor's money increases in the returns to the shareholders. Since the loan is a risky asset there is inherent risk in every loans, however, the bank should not take risk above the certain degree irrespective of the returns prospects.

2.4 Classification of NPA

As per the NRB directives NPA are said as classified loans. And this includes sub-standard, doubtful and loss categories as defined by new NRB directives. The circular further says a NPA is a credit facility in respect of which interest has remained unpaid for two quarters.

According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Table No. 2.1
Classification of Loan and Advances

Classifications of loan and advances	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 months. [Performing loans]	1%
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 month to 1 years	50%
Loss	Past due for a period of more than 1 years or advances which have least possibility of recovery.	100%

Source: Nepal Rastra Bank, Directives for commercial banks.

2.5 Effects of NPA on Profitability of Banks

Under the circumstances assets that do not earn any income to the bank affect the profits in a number of ways, which are explained as follows (Koirala, 2006, Page No:38 – 40):

Profitability Impact

-) The resources locked up in NPA are borrowed at a cost and have to earn a minimum returns to service this cost.
-) NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
-) Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
-) NPA have a direct impact on assets and returns on equity, the two main parameters for measuring profitability of the commercial banks.
-) Return on assets will be affected because while the total assets include the NPA they do not contribute to profits which are the numerators in the ratio.
-) Return on equity is also affected as provisioning eats more and more into profits earned.
-) The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.

-) NPA bring down the profits, affects the shareholders value and thus, adversely affect the investor confidence.
-) As a whole, the impact of NPA can be assessed with the following:
 -) Lower ROE and ROA
 -) Lower image and rating of banks
 -) Disclosure reduces investor's confidences.
 -) Increases costs/difficulties in raising capital.
 -) NPA do not generate income.
 -) They require provisioning.
 -) Borrowing cost of resources locked in
 -) Opportunity loss due to non-recycling of funds.
 -) 100% risk weight on net NPA for CRR.
 -) Capital gets blocked in NPA.
 -) Utilizes capital but does not generate income to sustain the capital that is locked.
 -) Recapitalization by government comes with string.
 -) Administration and recovery costs of NPA.
 -) Effects in employee morale and decision.

2.6 Causes and Measures of NPA

[Country-wise Analysis]

China

Causes

-) Moral Hazard: The SOE's believe that there the government will bail them out in case of trouble and so they contribute to take high risks and have not really strived to achieve profitability and to improve operational efficiency.
-) Bankruptcy laws favors borrowers and law courts are not reliable enforcement vehicles.
-) Political and social implications of restructuring bi SOE's force the government to keep them afloat.
-) Banks are reluctant to lend to the private enterprises due to
 - Non- standard accounting practices.
 - While an NPA of an SOE is financially undesirable, an NPA of a private enterprise is both financially and politically undesirable.

Measures

-) Reducing risk by strengthening banks, raising disclosure standards and spearheading reforms of the SOE's by reducing their level of debt.
-) Laws were passed allowing the creation of asset management companies, foreign equity participation in securitization and asset-backed securitization.
-) The government, which bore the financial loss of debt 'discounting'. Debt/equity swaps were allowed in case a growth opportunity existed.
-) Incentives like tax breaks, exemption from administration fees and clear-cut asset evaluation norms were implemented.

Thailand

Causes

-) Liberalized capital and current account and external borrowings with inaccurate assessment of exchange rate risk and risk of capital flight in a crisis.
-) A legal system that made credit recovery time consuming and difficult.
-) Real estate speculators took massive loans projecting high growth in demand and prices of properties. When this did not materialize all the loans went bad.
-) Steep interest rate rise turned a lot of loans into NPAs
-) Inability to correctly assess credit risk.

Measures

-) Amendments were made to the Bankruptcy Act.
-) Corporate Debt Restructuring Plan (1998) focused on capital support facilities for bank recapitalization and setting up of AMC's.
-) New rules governing NPA exit procedures based on international standards were introduced.
-) Privatization of government entities was mooted, but faced strong political oppositions for fear of a social backlash.
-) Adoption of international standards for loan classification and provisioning.
-) Caps on Foreign equity ownership in financial institutions were removed.

Korea

Causes

-) Directed Credit: Protracted periods of interest rate control and selective credit allocations gave rise to an inefficient distribution of funds. The Chaebols' focus on increasing market share and pursuing diversification with little attention to profitability caused tremendous stress on the economy.
-) The "compressed growth" policy via aggressive, leveraged expansion worked well as long as the economy was growing and the ROI exceeded the cost of capital. This strategy backfired when slowing demand and rising input costs placed severe stress on their profitability.
-) Lack of Monitoring-Banks relied on collaterals and guaranteed in the allocation of credit, and little attention was paid to earnings performance and cash flows.
-) Contagion effect from South East Asia coincided with a period of structural adjustments as well as a cyclical downturn in Korea.

Measures

-) Speed of action:- the speedy containment of systemic risk and the domestic credit crunch problem with the injection of large public funds for bank recapitalization were critical steps towards normalizing the financial system.
-) Corporate Restructuring Vehicles (CRVs) and debt/equity swaps were used to facilitate the resolution of bad loans.
-) Creation of the Korea Asset Management Corporation (KAMCO) and a NPA fund to fund to finance the purchase of NPA's.
-) Securitization KAMCO's recoveries came through asset-backed securitization and outright sales. International investors like the Lone Star Fund participated in the process.
-) Strengthening of Provision norms and loan classification standards based on forward-looking criteria (like future cash flow) were implemented.
-) The objective of the central bank was solely defined as maintaining price stability. The Financial Supervisory Commission (FSC) was created (1998) to ensure an effective supervisory system in line with universal banking practices.

Japan

Causes

-) Investments were made Real Estate at high prices during the boom. The recession caused prices to crash and turned a lot of these loans bad.
-) Legal mechanisms to dispose bad loans were time consuming and expensive and NPA's remained on the balance sheet.
-) Expansionary fiscal policy measures administered to stimulate the economy supported industrial sectors like construction and real estate, which may have further exacerbated the problem.
-) Crony capitalism to the Keiretsus.
-) Weak corporate governance coupled with a non-bankruptcy doctrine was a moral hazard in Japanese economy.
-) Inadequate accounting systems and information flow makes assessment of loan performance outside a bank in Japan difficult.

Measures

-) Amendment of foreign exchange control law (1997) and the threat of suspension of banking business in case of failure to satisfy the capital adequacy ratio prescribed. Legislation to improve information flow has been passed.
-) Accounting standards: - Major business groups established a private standard setting vehicle for Japanese accounting standards (2001) in line with international standards.
-) Government Supports: - The government's committee public funds to deal with banking sector weakness.

(Source: Reddy, Prashant K ' A comparative study of NPA in India in the global context, a report, Page No: 4-8)

2.7 Reviews of Articles

On the way of conducting this research work, some books, journals and publications have been studied to formulate ideas about the subject matter. Although, the specific books regarding the NPA could not be found, however, some banking related books have been consulted such as Tannan's Banking Law and Practices in India, (1997). Assessing the gravity of the problem Tannan found that the banks and financial institutions at present face considerable difficulties in recovery of dues from the

clients and a significant portion of the funds of the banks and financial institutions is thus, blocked in unproductive assets ie,NPA

Suneja, (1992), pointed out the causes of NPA that the risk connected with lending to business depends on an enormous number of factors. For any particular type of business the risk failure is affected. The state of economy trend in demand for the project or service provided competition from any other suppliers, financial resources are too limited and management skills and lacking. Reiterating the difficulties that Suneja says probably the most difficult decision facing a banker is to determine when it becomes necessary to recall a loan and to begin the process of liquidating the security. Further she suggests that if a customer fails to make repayment on the due date, the bank has to consider what steps need be taken to recover the debt.

Basyal (2057), discussing the financial performance of government owned banks in the article, "Placing RBB and NBL under Management Contracts Rational and Opposition" agreed that the disappointing performance of these two banks has become serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behaviour.

Ghimire (2056), in her article, "efficiency indicators of commercial bank" she has made a comparative analysis and found that efficiency indicator of the banks may be viewed on the basis of amount allocated for loan loss provisioning against loan and investment.

Pradhan (2058), in his article, "NPA Some suggestion to tackle them" expressed that unless the growth of NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate bodies misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of coordination among various financiers, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for

fear of investigating agencies like special policy, CIAA, Public Accounts Committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA, he adds that administrative system should be strengthened. Legal reforms should be made and Assets Reconstruction Company should be formed. Henderson (2003) CEO of RBB during his interview to New Business Age agrees that the challenging target of RBB turn around in restructuring and collection of NPA.

2.8 Review of Related Thesis

Dinesh Kumar Khadka, (2004) "Non-Performing Assets of Nepalese Commercial Banks", his objectives to study and examine the level of NPAs in total assets, total deposits and total lending of commercial banks of the banking industry of Nepal. He also had studied whether the Nepalese commercial banks have been following the directives of NRB regarding loan loss provision for non-performing loan/assets or not. He had taken sample banks as Nepal SBI Bank Limited, Nepal Investment Bank Limited, Nepal Bangladesh Bank Limited, Bank of Kathmandu Limited, Nabil Bank Limited. From his studies, it is found that the level of NPA of Nepal Bangladesh Bank Limited seemed greater than all of the other banks under his study. Similarly, Nepal SBI Bank and Bank of Kathmandu stand at second and third position respectively. The position of Nabil Bank Limited seemed to be quite satisfactory because, the bank has been reducing its NPA every year. NPA of Nepal Investment Bank is reducing it at minimum than that of all the other banks. From the study it has also been found that none of the banks have been following the directives of NRB regarding the loan loss provision. Despite of high level of NPA the loan loss provision made by the Nepal Bangladesh Bank seemed to be quite satisfactory than any of the other banks. Despite of the outstanding success in managing the NPA the loan loss provision made by Nepal Investment Bank is not considerable. It meant the loan loss provision of Nepal Investment Bank is very less than the requirement.

Govinda Ghimire ;(2005) "Non Performing Assets of Commercial Banks" main objectives to evaluate the impact of NPA on the profitability of the commercial banks. He also studied about the internal and the external factors that affect the non-

performing assets to increase from the loan and advances. The internal factor, that influences the effective management of the NPA and its increment. The objective of his study is also to find out the relationship between the non-banking assets and the non performing assets, in which he was able to find out the internal responsible factors that contribute turning good loan into bad loans, bad intention, weak monitoring and mismanagement are the most responsible factors. Similarly, weak legal provision and credit concentration are also found as the least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on security were identified as having average effect on NPA growth. In connection to the external factors it has been found that recession, political and legal issues are more relevant factors in turning good loans into bad one. Like wise legal provision for recovery as a reason for increment in NPA in Nepalese Banks have been found the factors having less impact. Supervision and monitoring system have been identified as average factors. It is therefore, can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increment of NPA.

It has also been concluded in the study that Nepalese Commercial Banks gave must priority to trade sector for lending its resources, at the same time it is found that service sectors are not being given that much emphasis. He had recommended to the sample banks, Nepal Bangladesh Bank Ltd. Nepal SBI Bank Ltd and Bank of Kathmandu Ltd. as on different headings, subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration, strong legal system, assets management company, avoidance of undue pressure, etc.

Niva shrestha, (2004) "Non performing loans and loan loss provisioning of the commercial banks" revealed that the Standard Chartered Bank Nepal Limited had risk averse attitude of the management or they have policy of investing low in the risky assets i.e. loans and advances as compared to Nepal Bank Limited and Nabil Bank because the loans and advances to total assets ratio on NBL, NABIL and SCBNL during the study period was appeared to be 52.3%, 47% and 29.34%

respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky assets like treasury bills, National Saving bonds etc.

Similarly the loans and advances to total deposits ratio of NBL, NABIL and SCBNL during the study period was found to be 57.63%, 56.35% and 35.94% respectively. It indicates that the SCBNL has the most consistent and variability during the study period whereas the NBL has the higher consistent and variability as compared to other two banks. NABIL has the moderate level of consistent and variability.

In the same way, the proportion of Non Performing loan with regard to total loans of NBL, NABIL and SCBNL was found to be 48.37%, 10.67%, and 4.38% respectively. That means 51.63%, 89.33% and 95.62% of the total loan of NBL, NABIL and SCBNL was found to be performing loans. Not only the public sector bank, even private sector bank like NABIL has higher proportion of non-performing loan. However, in recent years, NABIL has shown significant decrement in non-performing assets, which are the efforts of recovering bad credit through the recovery of establishment of recovery cell.

In the same way, proportion of loan loss provision of NBL was found to be significantly higher i.e. 40.17% as compared to other two commercial banks. The proportion of NABIL and SCBNL was found to be 5.69% and 4.49%.

The average ratio of provision held to non performing loan of NBL, NSABIL and SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non performing loan where as NABIL was found to be comparatively lower. The NBL was found to be an average position.

Subash Koirala, (2006) “Non performing assets and profitability of commercial banks in Nepal” his objectives were to evaluate the impact of NPA on the profitability of the commercial banks. he also studies about the internal and external factors those influence the performing assets to non performing one. He had taken sample banks as Nabil banks Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Everest Bank Limited, Nepal SBI Bank Limited and Nepal Investment Bank Limited.

The NPA of Nepal Investment Bank during the study period was increasing. The ratio of NPA to lending was found to be decreasing over the years as it was 8.29% in fiscal year 2001/02 and decreased to 2.69% in the fiscal year 2005/06. The net profit was also increasing during the study period.

In case of Everest Bank Limited, the level of NPA was decreased to 1.6% on the fiscal year 2005/06 which was 6.79% in the fiscal year 2001/02. the NPA was increasing during this period and despite of the increasing NPA profit of the bank was found to be increasing during study period.

In case of Nepal Bangladesh Bank Limited, the level of NPA was increased from 9.03% in fiscal year 2001/02 to 19.04% in fiscal year 2005/06. The NPA of the bank was found to be increased and that causing the gradual decrease in the profitability of the bank.

The NPA of the Nabil Bank Limited was decreased upto one fifth from the fiscal year 2001/02 to fiscal year 2005/06. The level of NPA was found to be decreased from 16.20% in fiscal year 2001/02 to 1.32% in fiscal year 2005/06 whereas the ROA was found to be increased from 1.71% to 3.06% over the five years period.

In case of the Nepal SBI Bank Limited, the level of NPA was found to be fluctuation in it. Although it was decreasing it was not desirable level. The level of NPA in fiscal year 2001/02 was 8.64% and in fiscal year 2005/06 it was 6.54%.

The NPA of Himalayan bank Limited was found to be fluctuating during the study period, though it was found to be decreased in fiscal year 2005/06 in comparison to fiscal year 2001/02. The level of NPA was found to be highest for the Nepal Bangladesh Bank Limited in the fiscal year 2005/06, whereas the lowest was found that of Everest Bank Limited in fiscal year 2004/05. In overall the performance of the Nabil Bank was found to be satisfactory as the level of NPA was gradually decreasing over the years covered by this study.

Reetu Shrestha (2007) 'Non performing assets management of Nabil Bank Limited'. She concluded the increasing non performing loan is risky because of decreased in cash and income. NPA has negative effect on profitability, liquidity and competitive

functioning of concern bank. She also concluded performing assets has gradually decreased and NPA has gradually increased from the year 2055/56{6741.52 million} to the year 2062/63(10176.36 million).

Sumana Khatri Chetri "A study on non- performing assets in commercial bank of Nepal"(2009 April) she took all 17 commercial banks as sample for her study and found that NPA off all commercial banks had increased from F/Y20000/1 to F/Y2002/3 amounting Rs28429millions to Rs 32226 millions as a results net profit got decreased from Rs -7843millions to Rs-2461 millions.

2.9 Research Gap

From the study of previous thesis it has found that increasing Non-performing assets is one of the major challenges faced by Nepalese commercial banks in the present context Many researches were done in the matter relating to loan loss provision for Non-performing assets ,on the level of NPA, or on the profitability impact of NPA. Some researcher had done what is the internal and external factors affects the Non performing assets to increase from the loan advances. The previous theses covered only upto the fiscal year 2007/08. This research will be able to identify the level of NPA in comparison to total assets, total deposits, total loan, which is not found in previous thesis. This thesis also based on secondary data provided by concerned Nepalese commercial banks up to the fiscal year 2008/09from the fiscal year 2004/5. Hence this thesis had attempted to fill this research gap by taking the reference of Nabil Bank Limited, Nepal SBI Bank Limited, Nepal Investment Bank Limited, Kumari Bank Limited, Laxmi Bank Limited and Standard Chartered Bank Nepal Limited. This research will be able to deliver some of the present issue, latest information and data relating to Non-performing assets and profitability of Nepalese commercial banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

“Research methodology, refers to the various sequential steps to adopt by a research in studying a problem with certain objective in view” (Kothari, 1994:19). Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings.

3.2 Research Design

The main objective of this study is to analyze the relationship between NPA and Profitability of the commercial banks and provide suggestion on the basis of findings. To fulfill this purpose, the study follows the analytical and descriptive research design. It also analyses the loan loss provision maintained by commercial banks.

In order to achieve the predetermined objectives of the study, secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of this study is based on descriptive and analytical study.

3.3 Population and Sample

The large group about which the generalization is made is called population under study, or the universe and small portion on which the study is made is called the sample of the study.

Nowadays a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently, there are 28 commercial banks are operating in Nepal. In this study, all the commercial banks are population of the study. Among them, six Banks have been selected as samples for the present study on the basis of well financial performance.

The population of the present study is listed as under, the commercial banks operating in the banking industry of Nepal.

Table 3.1
List of Commercial Banks in Nepal

S.N.	Name of Bank	Established Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijaya Bank Ltd	2022/10/10	Kathmandu
3.	NABIL Bank Ltd	2041/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/16	Kathmandu
5.	Standard Chartered Bank Nepal Ltd	2043/10/16	Kathmandu
6.	Himilayan Bank Limited	2049/10/05	Kathmandu
7.	Nepal Bangladesh Bank Ltd.	2050/02/23	Kathmandu
8.	Nepal SBI Bank Ltd.	2050/03/23	Kathmandu
9.	Everest Bank Ltd.	2051/07/01	Kathmandu
10.	Bank of Kathmandu Ltd.	2051/11/28	Kathmandu
11.	Nepal Credit and Commerce Bank Ltd.	2053/06/28	Kathmandu
12.	Lumbini Bank Ltd	2055/04/01	Narayangadh
13.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
14.	Kumari Bank Ltd.	2056/08/24	Kathmandu
15.	Machhapuchhre Bank Ltd	2057/06/17	Pokhara
16.	Laxmi Bank Ltd	2058/06/11	Birjunj
17.	Siddhartha Bank Ltd	2058/06/12	Kathmandu
18.	Agriculture Development Bank	2062/03/30	Kathmandu
19.	Global Bank Ltd.	2063/09/18	Birjunj
20.	Citizens Bank International Ltd.	2064/01/07	Kathmandu
21.	Prime Commercial Bank Ltd.	2064/06/07	Kathmandu
22.	Bank of Asia Nepal Ltd.	2064/06/25	Kathmandu
23.	Sunrise Bank Ltd.	2064/06/25	Kathmandu
24.	Development Credit Bank Ltd.	2065/02/12	Kathmandu
25.	NMB Bank Ltd.	2065/02/20	Kathmandu
26.	Kist Bank Limited	2066/01/24	Kathmandu
27.	Janata Bank	2067	Kathmandu
28.	Mega Bank	2067	Kathmandu

Sources: www.nrb.com

The following are the banks, which are taken as sample for the study.

-) Kumari Bank Limited
-) Nepal Investment Bank Limited
-) Laxmi Bank Limited
-) Nepal SBI Bank Limited
-) Standard Chartered Bank Nepal Limited
-) Nabil Bank Limited

3.4 Sources of Information

The main sources of information are the concerned banks and their published documents, NRB and its published documents, experts' views, newspaper, and many others if possible. The major sources of data may be the secondary sources of data are the information received from the books, journals, newspapers, published reports and dissertation etc. The major sources of secondary data are:

-) Economic survey, Ministry of Finance
-) Nepal Rastra Bank Directives
-) Nepal Rastra Bank Samachar
-) Annual General Reports of the concerned commercial banks.
-) National and international newspaper, journals, magazines etc.
-) And many other books as far as possible.
-) Different websites

3.5 Tools for Analysis:

Few statistical packages such as Excel are used to process and analyze information. Secondary information collected from annual general reports of the sample banks was first tabulated in Excel spreadsheet and then analyzed using formula and charts of the same software. For these statistical tools such as correlation analysis is done and in some cases, financial tools such as Returns on assets have also been made. Suitable tools such as descriptive statistics, Mean, Standard Deviation, etc. were done wherever necessary.

Statistical tools

In this research, following statistical tools are used

Average:

Average is defined as sum of observations divided by their number in the selected sample.

Average (mean) =

$$\bar{X} = \frac{\sum X}{N}$$

Coefficient of correlation (r)

The correlation coefficient indicates the linear relationship between two or more variables. The measures of correlation called the “correlation coefficient” can be summarized in one figure, the degree and direction of movement. It can be calculated by using the method of Karl Person’s correlation coefficient, because it is one of the widely used mathematical methods of calculation, the correlation coefficient between two variables. In symbolically, it is defined as:

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

Assumptions

-) If $r = 1$, there is positively perfect correlation between the two variables.
-) If $r = -1$, there is negatively perfect correlation between the two variables.
-) If $r = 0$, the variables are uncorrelated.

The nearer the value of r to $+1$, the closer will be the relationship between two variables and the nearer the value of r , the lesser will be the relation.

Probable error (P.E):

The probable error of the correlation coefficient helps to interpret its value. P.E., which is the measure of testing the reliability of correlation coefficient, denotes it. If r be the calculated value of r from a sample of n pair of observation the P.E. is denoted by

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

It can be interpreted to know whether its calculated value of r is significant or not in the following ways.

) If $r < PE$, it is Insignificant perhaps there is no evidence of correlation

) If $r > 6PE$, it is significant.

It is other causes, nothing can be concluded. The probable error of correlation may be used to determine the limits within which the population correlation coefficient lies. The limits for population correlation are $r \pm PE$.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation is the interpretation of the study. Data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis. In this course of analysis, data gathered from. The data have been analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion

Nowadays Non-Performing Assets (NPA) have been occupying major space in the total assets and total lending of the bank. It stands around 15% in the Nepalese banking system while it is even worse in case of two large commercial banks, Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL). The NPA of RBB is found 45.3% while that of NBL is 25.1% of the total lending. In this way it shows that commercial banks have been suffering by high level of NPA, and the efforts of the banks have been diverted to reduce it. (NRB- year book,2063/64)

Keeping this fact into consideration, a provision has set up by Nepal Rastra Bank in Fiscal year 2057/58 to control the level of NPA of Nepalese commercial banks. According to that provision, every bank has to classify its total loan and advances (including purchased and discounted bills) as pass loan, substandard loan, doubtful loan and bad loan, on the basis of overdue against schedule. Commercial banks are also directed to maintain loan loss provision as stated in section 11 of directives no. 2 of NRB's directives for commercial banks 2059. Main purpose was to find out the level of NPA in Nepalese commercial banks and to take necessary steps to control the level of NPA in future.

Here in the study, data of five fiscal years starting from F/Y 2004/05 to 2008/09 have been presented to study and analyze the level of NPA in total assets, total

lending and total deposits of the commercial banks. Data are also presented to examine or analyze the efforts to NPA on the profitability of the banks under study.

4.2 Data presentation and Analysis of Sample Banks

4.2.1 Data Presentation and Analysis of “ KUMARI BANK LIMITED”

Table No. 4.1

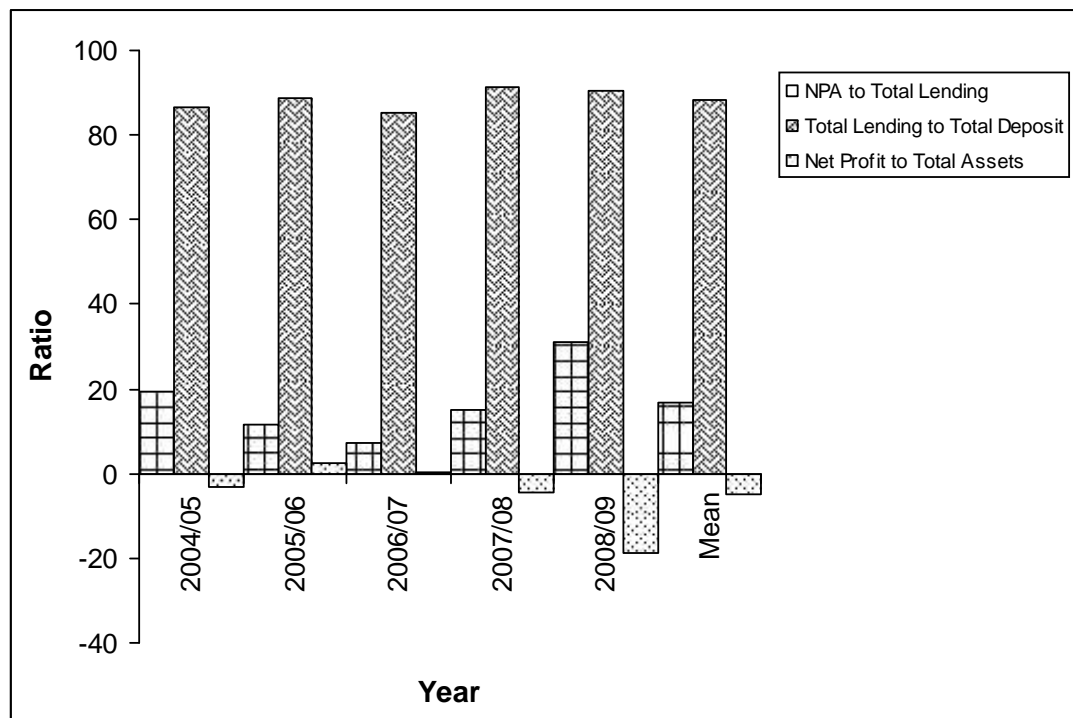
Relation between NPA, Net Profit, Total Lending and Total Deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NPA to Total Lending	19.32	11.7	7.36	15.23	30.99	16.92
Total Lending to Total Deposit	86.37	88.6	85.31	91.41	90.29	88.40
Net Profit to Total Assets	-3.2	2.59	0.43	-4.38	-18.92	- 4.7

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.1

Relation between NPA, Net Profit, Total Lending and Total Deposit



From the Table and Figure 4.1, it can be said that the ratio between the Non performing assets and total lending is found to be in increasing trend, although it has been decreased to 11.70 % for the year 2005/06 and 7.36 % for the fiscal year 2006/07. It is found to be 19.32 % for the fiscal year 2004/05 which is found to be

30.99 % at the end of fiscal year 2008/09. The average ratio between NPA and total lending of five years period is 16.92 %.

Similarly the total lending to total deposit ratio is following increasing trend. It is found to be 86.37 % for the fiscal year 2004/05 which has increased to 90.29 % for the end of year 2008/09, Although, it has been decreased for the fiscal year 2006/07. The average ratio between total lending to total deposit of five years is 88.40 %.

And the net profit to total assets ratio is also found to be decreasing, it is found to be -3.2 % in the fiscal year 2004/05 and it becomes to -18.92 % for the fiscal year 2008/09. Although it has been increasing to 2.59 % for the fiscal year 2005/06 and there after the net profit to total assets ratio is decreasing to the whole study period. The average ratio between net profits to total assets of five years period is - 4.7 %. It shows that the profit is decreasing in comparison to total assets of the bank shows that the bank is not able to increase its profit over the five years, indicates the poor performance of the organization.

Table No. 4.2
Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	-7,664,786	441,641,381
2005/06	89,139,129	306,776,772
2006/07	18,639,673	237,298,336
2007/08	-195,580,188	561,128,272
2008/09	-806,062,623	1,339,242,790

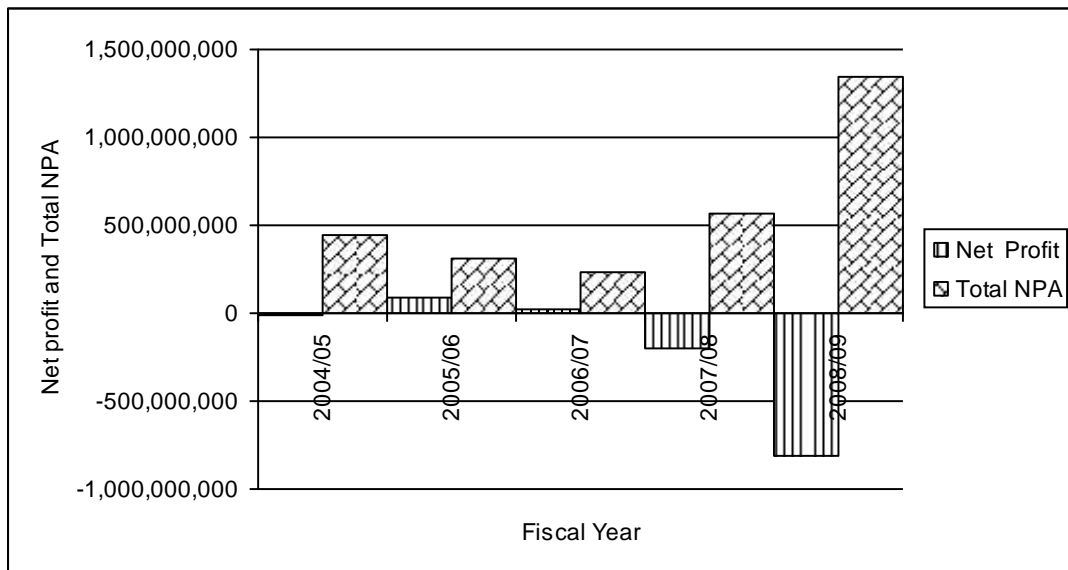
Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

In Table 4.2, shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2004/05, the bank has NPA amounts to Rs 441641381 and bank could not earned net profit and its net loss amounts to be Rs (7664786). In fiscal year 2005/06 the NPA amounts to Rs. 306776772 i.e. NPA decreases by 30.5 % in comparison of previous year. As the result the bank is able to increase its profit by 96803915 in comparison of previous year and net profit reaches to Rs 89139129 at the end of fiscal year 2005/06. similarly, in fiscal year 2006/07 the

NPA amounts to Rs 239298336 i.e. NPA decreases in comparison of previous year. As the result the bank is not be able to increase its net profit. The net profit decreases by Rs 70499456 (i.e.79 %) in comparison to previous year and reaches to Rs.18639673 at the end of the fiscal year. Unfortunately, the banks NPA is increased by 136 % and reached to Rs.561128272. As the result, the net profit of the banks is decreased and reached to net loss Rs (195580188) at the end of fiscal year 2007/08. Similarly, at the in fiscal year 2008/09, the NPA again increased by 138% reached to amount Rs (1339242790). The net loss increases to amount Rs 806062623 at the end of fiscal year 2008/09. The increasing level of NPA may harm to the organization, which indicates the major cause of the decreasing profit of the bank. So the bank has to control its NPA's as efficient as possible.

To make clearer the data of Table 4.2 also presented on the figure 4.2:

Figure No. 4.2
Relation Between Net Profit and Total NPA



Loan loss provisioning of Kumari Bank Ltd:

The loan loss provision maintains by Kumari Bank Ltd. is presented in the table 4.2.1. (3).

Table No. 4.3**Loan loss provisioning of Kumari Bank Ltd:**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.47	1.68	1.36	2.03	1.01
Sub-standard loan	25% of sub-standard loan	30.76	28.33	23.56	23.65	24.20
Doubtful loan	50% of doubtful loan	50.29	52.67	51.19	47.72	48.94
Bad loan	100% of bad loan	96.89	100.00	99.21	99.00	99.76

Source: Annex 1 (a)

Every commercial bank has to maintain loan loss provision as per the NRB's directives for the commercial bank, although, the loan loss provision creates capital inadequacy to expand business. Up to fiscal year 2004/05, the bank made 1.47 %, 30.76%, and 50.29 % loan loss provision for pass loan, sub-standard loan and doubtful loan respectively which is enough more than requirement (i.e. more than 1 %, 25 %, and 50 %). The bank provision for loss loan which is 96.89 %, is not as per directives. Loan loss provision for bad loan must be 100 %.

In fiscal year 2005/06, the bank made 1.68 % loan loss provision for pass loan, which is higher than as per directives. Similarly, the bank made 28.33 % and 52.67 % loan loss provision for sub-standard and doubtful loan respectively which is more than as per NRB's directives. Loan loss provision for bad loan exactly met the NRB's directives, which is 100 percent of loss loan.

In fiscal year 2006/07, it is found that the bank is enabling to maintain loan loss provision for sub-standard loan and bad loan in accordance to NRB's directives. The bank provision is 23.56 % for sub-standard loan instead of 25 % and only 99.21 % for bad loan instead of 100 percent. Similarly, bank provision, is slightly higher for pass loan (i.e. 1.36 % instead of 1 %) and doubtful loan (i.e. 51.19 % instead of 50 %).

In fiscal year 2007/08, the bank made 2.03 % for pass loan which is enough more than the requirement i.e. more than 1 %. It is found that the bank is enabling to maintain loan loss provision for substandard, doubtful and bad loan in accordance of NRB's directives. The bank provisioned 23.65 %, 47.75 % and 99 % respectively for substandard, doubtful and bad loan.

In fiscal year 2008/09, the bank made 1.01 % for pass loan which is slightly more than the requirement i.e. more than 1 %. It is found that the bank enables to maintain loan loss provision for substandard, doubtful and bad loan in accordance of NRB's directives. The bank provisioned 24.20 %, 48.94 % and 99.76 % respectively for substandard, doubtful and bad loan.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB's directives. The bank maintains higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.2.2 Data Presentation and Analysis of “NEPAL INVESTMENT BANK LIMITED”:

Table No. 4.4

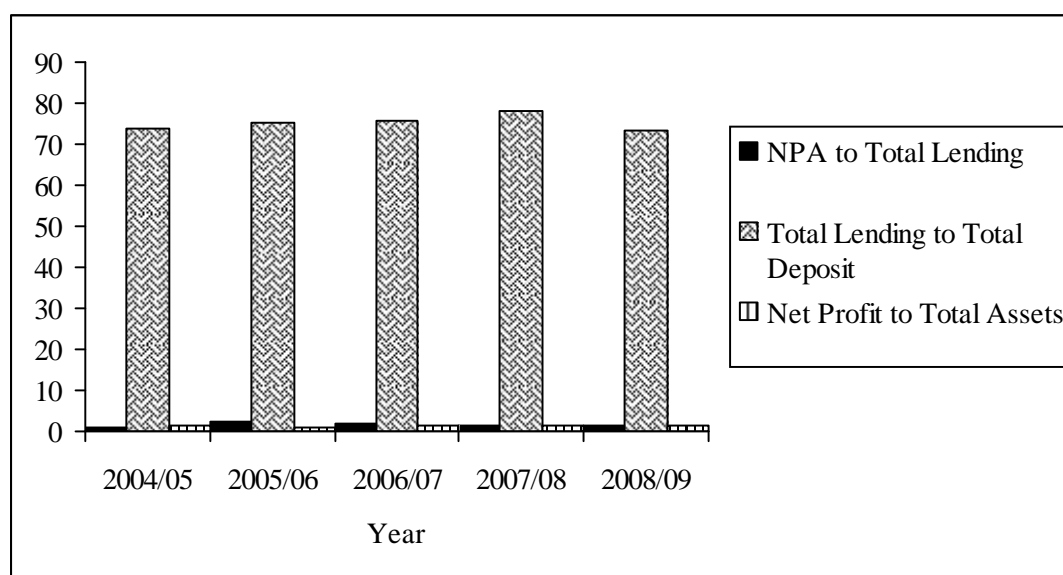
Relation between NPA, Net profit, Total lending and Total Deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NPA to Total Lending	1.04	2.20	1.70	1.60	1.27	1.56
Total Lending to Total Deposit	74.00	75.40	75.60	78.20	73.40	75.32
Net Profit to Total Assets	1.29	1.17	1.49	1.45	1.50	1.38

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.3

Relation between NPA, Net Profit, Total Lending and Total Deposits



From Table 4.4 and Figure 4.3, it can be said that the ratio between the Non performing assets and total lending is found to increasing over the five years period. In the fiscal year 2004/05 it is found to be at 1.04 %, which highly increases to 2.20 % to the following year, and in the fiscal year 2006/07 it is found to be decreased rather than previous year. In the fiscal year 2008/09 the non performing assets to total lending ratio is found to be 1.27% and the average ratio between NPA and total lending of five years period is 1.56 %.

The total lending to total deposit ratio is following decreasing trend over five years period. In fiscal year 2004/05 it is found to be 74.00 % and is found to be increased in the following years and has reached to 75.40 %, 75.60 % and 78.20 % in the fiscal year 2005/06, 2006/07 and 2007/08 respectively. And finally it is increased to 73.40 % for the end of year 2008/09. The average ratio between total lending to total deposit of five years period is 75.32 %.

And the net profit to total assets ratio is also found to be fluctuating over the five years period. It is found to be 1.29% in the fiscal year 2004/05 and it becomes to 1.50 % for the fiscal year 2008/09. The average ratio between net profits to total assets of five years period is 1.38 %.

Table No. 4.5

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	85,347,446	42,388,116
2005/06	94,180,428	111,191,103
2006/07	143,566,683	104,764,369
2007/08	170,807,797	128,807,745
2008/09	237,290,936	129,235,790

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

In Table 4.5, shows the status of non-performing assets (NPA) and net profit of the bank in different years. In fiscal year 2004/05. The bank has NPA amounts to Rs 42388116 and bank's net profit amounts to be Rs 85347446. In fiscal year 2005/06 the NPA amounts to Rs. 111191103 i.e. NPA increased by Rs 68802987 (i.e.162.32 %) in comparison of previous year. As the result the bank increases its profit by Rs 8832982 in comparison of previous year and net profit reaches to Rs 94180428 at the end of fiscal year 2005/06.

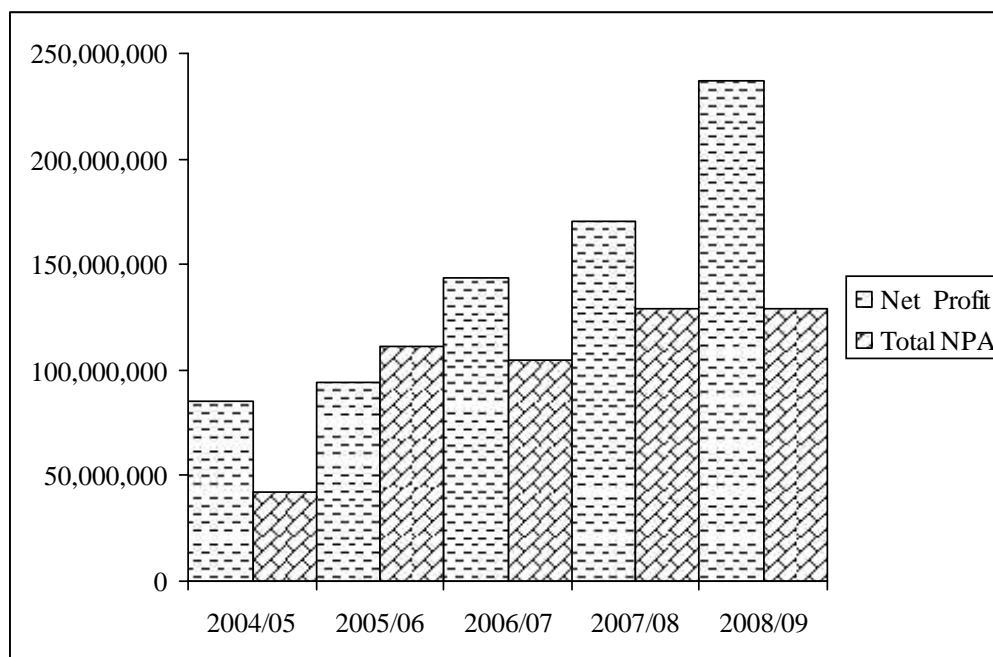
In fiscal year 2006/07, the NPA amount, is decreased by Rs 6426734 (i.e.5.78 %) in comparison of previous year. The net profit is increased by Rs 49386225 (i.e.52.44 %) in comparison to previous year and reached to Rs.143556683 at the end of the fiscal year.

In fiscal year 2007/08 the bank's NPA is increased by 22.95 % i.e. Rs 24043376 and reached to Rs.128807745. As the result the net profit of the bank is increased by 18.97 % at the end of fiscal year 2007/08.

Similarly, in fiscal year 2008/09, the NPA is increased by 0.33 % i.e. Rs 428045 and reached to amount Rs 129235790. The net profit is highly increased by amount Rs 66483139 i.e.38.92 % in comparison with previous year's net profit and reached to Rs 237290936. The bank is able to earn more profit although the level of NPA also increased.

To make clearer the data of table 4.5 also presented on the Figure 4.4:

Figure No. 4.4
Relation between Net Profit and Total NPA



Loan loss provisioning of Nepal Investment Bank Ltd:

The loan loss provision maintains by Nepal Investment Bank Ltd. is presented in the Table 4.2.2. (3)..

Loan loss provisioning of Nepal Investment Bank Ltd:
Table No. 4.6

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.72	1.63	2.26	1.00	1.00
Sub-standard loan	25% of sub-standard loan	25.00	25.00	25.00	25.00	25.00
Doubtful loan	50% of doubtful loan	50.00	50.00	50.00	50.00	50.00
Bad loan	100% of loss loan	123.78	100.00	100.00	100.00	100.00

Source: Annex 1 (b)

Commercial bank has to maintained loan loss provision as per the NRB's directives for the commercial bank. In fiscal year 52004/05, Loan loss provision for substandard loan and doubtful loan exactly met the NRB's directives, which is 25 % and 50 % of substandard loan and doubtful loan respectively. The bank made 1.72

%, and 123.78 % loan loss provision for pass loan and bad loan which is higher than requirement as per NRB's directives.

In fiscal year 2005/06, the bank provision 1.63 % for pass loan which is higher than the NRB's directives. Loan loss provision for substandard loan, doubtful loan and bad loan exactly meet the NRB's directives, which is 25 %, 50 % and 100 percent of substandard loan, doubtful loan and bad loan respectively

In fiscal year 2006/07, the bank provision 2.26 % for pass loan which is higher than the NRB's directives. The bank made Loan loss provision for substandard loan, doubtful loan and bad loan exactly meet the NRB's directives, which is 25 %, 50 % and 100 percent of substandard loan, doubtful loan and bad loan respectively

In fiscal year 2007/08 and 2008/09, the bank is able to maintain the loan loss provision perfectly in accordance to the NRB's directives.

4.2.3 Data Presentation and Analysis of "LAXMI BANK LIMITED":

Table 4.7

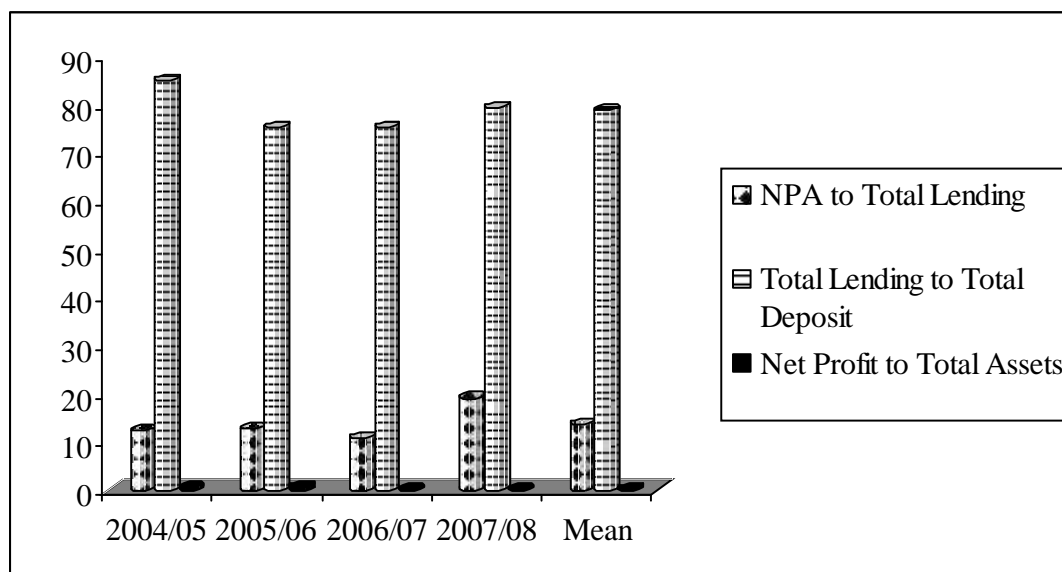
Relation between NPA, Net profit, Total lending and Total deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	Mean
NPA to Total Lending	12.26	12.73	10.81	19.04	13.71
Total Lending to Total Deposit	84.97	75.25	75.31	79.39	78.73
Net Profit to Total Assets	0.59	0.6	0.02	0	0.30

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.5

Relation between NPA, Net Profit, Total Lending and Total Deposit



From Table 4.7 and Figure 4.5, it can be said that the ratio between the Non performing assets and total lending is found to be increasing trend. It has found 12.26 % for the fiscal year 2004/05 and increased to the following year, but after that it has found to be decreasing and remained at 10.81 %, and in the fiscal year 2007/08, it again has increased and found to be at 19.04%. The average ratio between NPA and total lending of five years period is 13.71 %.

The total lending to total deposit ratio in the fiscal year 2004/05 is found to be 84.97 %. This ratio is also following the same pattern as of the above ratio. It has been found that it used to decline all of the years during the study. And that is found to be 79.39% at the fiscal year 2007/08. The average ratio between total lending to deposit of five years period is 78.73 %.

Similarly, the net profit to the total assets ratio is also found to be declining all of the years under the study. This ratio is found to be at 0.59 % in the fiscal year 2004/05 which is increase to 0.6 % for the fiscal year 2005/06 and in the following year it has found 0.02% in the fiscal year 2006/07. Due to not having any profit in the fiscal year 2007/08, the ratio cannot be traced out for this year.

The increasing level of NPA may harmful for the bank. So the bank has to control its non performing assets as efficiently. The net profit is going on diminishing and has reached to zero in the fiscal year 2007/08, indicates the poor performance of the bank.

Table No. 4.8
Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	65,783,645	1,275,125,869
2005/06	71,495,022	1,013,274,712
2006/07	2,643,245	1,042,180,827
2007/08	0	1,832,943,785

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

From Table 4.8, shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2004/05. The bank has NPA amounts to Rs 1275125869 and bank's net profit amounts to be Rs 65783645. In fiscal year 2005/06 the NPA amounts to Rs. 1013274712 i.e. NPA decreased by Rs 261851157 (i.e.20.54 %) in comparison of previous year. As the result the bank increase its profit by Rs 5711377 in comparison of previous year and net profit reached to Rs 71495022 at the end of fiscal year 2005/06.

In fiscal year 2006/07, NPA amount is slightly increased by Rs 28906115 (i.e. 2.85 %) in comparison of previous year. The net profit is decreased by Rs 68851771 (i.e.96.30 %) in comparison to previous year and reached amounted Rs.2643245 at the end of the fiscal year.

In fiscal year 2007/08, unfortunately the bank's NPA is increased by 75.88 % i.e. Rs 790762958 and reached to Rs.1832943785 and the banks could not earn any profit for the year 2007/08.

The table shows that the total NPA is fluctuating over the study period and net profit goes on diminishing over the same period and has reached to zero showing, the inefficiency of the bank in making profit a profit and weak performance of the bank.

Loan loss provisioning of Laxmi Bank Ltd:

The loan loss provision maintains by Laxmi Bank Ltd. is presented in the Table 4.9.

Loan loss provisioning of Laxmi Bank Ltd:

Table No.4.9

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.15	1.69	1.67	2.50	
Sub-standard loan	25% of sub-standard loan	22.08	25.29	25.00	25.00	
Doubtful loan	50% of doubtful loan	35.08	50.00	49.99	50.00	
Bad loan	100% of loss loan	58.11	98.47	98.66	98.85	

Source: Annex 1(c)

Commercial banks have to maintain loan loss provision as per the NRB's directives for the commercial bank. In fiscal year 2004/05, Loan loss provision for pass loan is 1.15 % which is higher than the requirement as per NRB's directives. But loan loss provision for substandard loan, doubtful loan and bad loan is found lower than the NRB's directives. The bank provisioned 22.08 %, 35.08 % and 58.11% respectively for the substandard, doubtful and bad loan which is highly lower than that of requirement.

In fiscal year 2005/06, Loan loss provision for pass loan and substandard loan higher than the NRB's directives, which is 1 percent of pass loan and 25 percent of doubtful loan? The bank made 1.69 % and 25.29 % loan loss provision for pass loan and substandard loan. The loan loss provision for doubtful loan exactly met the NRB's directives, which is 50 %. It is found that the bank unable to maintain loan loss provision for bad loan as per the NRB's directives.

Fiscal year 2006/07, Loan loss provision for pass loan higher than the NRB's directives, The bank made 1.67 % loan loss provision for pass loan. The loan loss provision for substandard exactly met the NRB's directives which is 25 %. It is found that the bank is unable to maintain loan loss provision for doubtful and bad

loan as per the NRB's directives. The bank made 49.99 % and 98.66 % provisions for doubtful and bad loan.

Fiscal year 2007/08, Loan loss provision for pass loan higher than the NRB's directives, The bank made 2.5 % loan loss provision for pass loan. The loan loss provision for substandard loan and doubtful loan exactly met the NRB's directives which are 25 % and 50 % respectively. It is found that the bank unable to maintain loan loss provision for bad loan as per the NRB's directives. The bank made 98.85 % provision for doubtful and bad loan.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB's directives. The bank maintains higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.2.4. Data Presentation and Analysis of “ NEPAL SBI BANK LIMITED”:

Table 4.10

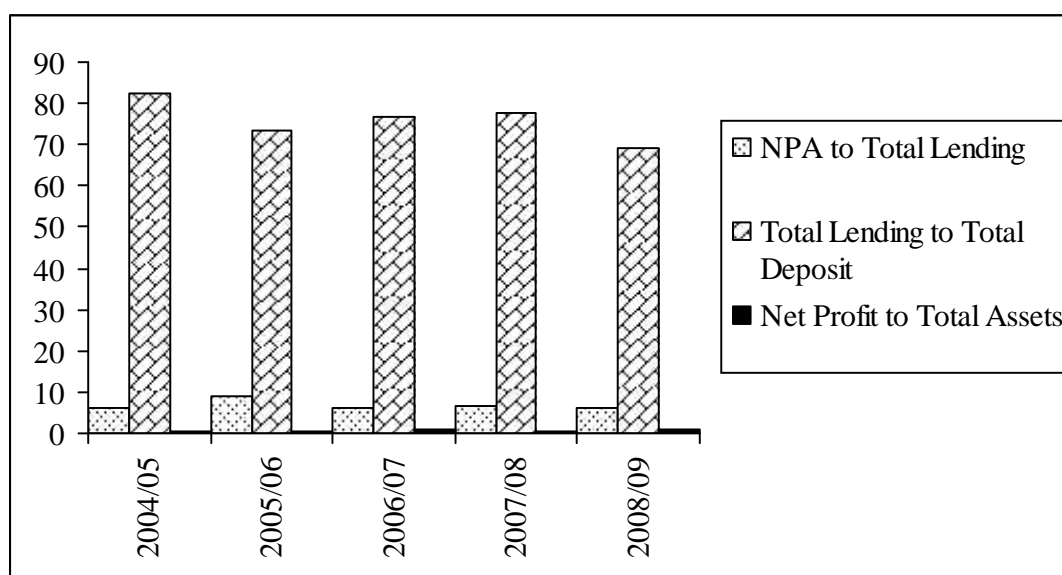
Relation between NPA, Net profit, Total lending and Total deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NPA to Total Lending	6.32	8.90	6.25	6.54	6.13	6.83
Total Lending to Total Deposit	82.27	73.27	76.85	77.87	69.32	75.92
Net Profit to Total Assets	0.58	0.64	0.72	0.55	0.90	0.68

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.6

Relation between NPA, Net Profit, Total Lending and Total Deposit



From Table 4.10 and Figure 4.6, it can be said that the ratio between the Non performing assets and total lending is found to fluctuating trend, although it has been increase to 8.9 % for the year 2005/06 and decreased to 6.25 % for the fiscal year 2006/07. Again it is found to be 6.54 % for the fiscal year 2007/08 and it is found to be 6.13 % at the end of fiscal year 2008/09. The average ratio between NPA and total lending of five years period was 6.83 %. The bank should continue to control over the non performing assets.

Similarly the total lending to total deposit ratio is following decreasing trend. It is found to be 82.27% for the fiscal year 2004/05 and it becomes to 69.32 % at the end of the fiscal year 2008/09, although, it is found to be increasing for the fiscal year 2006/07 and 2007/08. The average ratio between total lending to total deposit of five years period is 75.92 %.

And the net profit to total assets ratio is also found to be increasing, it is found to be 0.58 % in the fiscal year 2004/05 and it becomes to 0.90 % for the fiscal year 2008/09. It shows that the profit is increasing in comparison to total assets of the bank, showing the improvement in the profit of the bank and the average ratio between net profits to total assets of five years period is 0.68 %.

Table No. 4.11

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	40,843,769	289,766,401
2005/06	48,748,221	426,947,082
2006/07	60,851,673	345,821,458
2007/08	57,386,634	441,017,011
2008/09	117,001,973	505,336,919

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Table 4.11, shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2004/05. The bank's NPA amounts to Rs 289766401 and bank's net profit amounts to be Rs 40843769. In fiscal year 2005/06 the NPA amounts to Rs. 426947082 i.e. NPA increases by Rs 137180681 (i.e.47.34 %) in comparison of previous year. As the result the bank increase its profit by Rs 7904452 in comparison of previous year and net profit amounts to Rs 48748221 at the end of fiscal year 2005/06.

In fiscal year 2006/07, unfortunately, the NPA amount decreases by Rs 81125624 (i.e. 19 %) in comparison to previous year. The net profit increases by Rs 12103452 (i.e.24.83 %) in comparison to previous year and amounts to Rs.60851673 at the end of the fiscal year. In fiscal year 2007/08 the banks NPA increases by 27.53 % i.e. Rs 95195553 and reaches to Rs.441017011. As the result the net profit of the banks decreases by 5.69% at the end of fiscal year 2007/08.

Similarly, in fiscal year 2008/09, the NPA increases by 14.58 % i.e. Rs 64319908 and amounts to Rs 505336919. The net profit highly increases by amount Rs 59612339 i.e.103.88 % in comparison with previous year's net profit and reaches to Rs 117001973.

There is no doubt that the net profit of the bank affected by NPA. But NPA is not only a cause for increment and decrement of the net profit. There are many other causes that affect the profit of the bank. But NPA would be a major cause of

decreasing profit of the bank so the bank has to control its NPA as efficiently as possible.

Loan loss provisioning of Nepal SBI Bank Ltd:

The loan loss provision maintains by Nepal SBI Bank Ltd. is presented in the Table 4.12.

Loan Loss Provisioning of Nepal SBI Bank Ltd:

Table 4.12

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.19	1.19	0.94	0.95	0.96
Sub-standard loan	25% of sub-standard loan	26.11	22.41	13.39	20.94	17.71
Doubtful loan	50% of doubtful loan	50.00	52.17	48.39	15.67	29.18
Bad loan	100% of loss loan	100.22	89.22	95.83	98.00	99.13

Source: Annex 1(d)

Commercial bank has to maintain loan loss provision as per the NRB's directives for the commercial bank. In fiscal year 2004/05, Loan loss provision for doubtful loan exactly met the NRB's directives, which is 50 percent of doubtful loan. Similarly, the bank has made 1.19 %, 26.11 % and 100.22 % loan loss provision for pass loan, sub-standard and bad loan which is higher than requirement as per NRB's directives.

In fiscal year 2005/06, Loan loss provision for pass loan and doubtful loan higher than the NRB's directives. Similarly, the bank made 1.19 % and 52.17 % loan loss provision for pass loan and doubtful loan. It is found that the bank unable to maintain loan loss provision for substandard and bad loan as per the NRB's directives.

Fiscal year 2006/07, It is found that the bank unable to maintain loan loss provision for all classes of loan as per the NRB's directives. The bank provisioned 0.94 %, 13.39 %, 48.39 % and 95.83 % for pass, substandard, doubtful and bad loan. In fiscal year 2007/08, It is found that the bank unable to maintain loan loss provision for all classes of loan as per the NRB's directives. The bank provisioned 0.95 %, 20.94 %, 15.67 % and 98.0 % for pass loan, substandard loan, doubtful loan and bad loan.

In fiscal year 2008/09, It is found that the bank unable to maintain loan loss provision for all classes of loan as per the NRB's directives. The bank provisioned 0.96 %, 17.71 %, 29.18 % and 99.13 % respectively for pass loan, substandard loan, doubtful loan and bad loan.

It is found that the bank could not maintained loan loss provision, perfectly in accordance to the NRB's directives. The bank maintains lower than requirement. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.2.5 Data Presentation and Analysis of “ STANDARD CHARTERED BANK NEPAL LIMITED”:

Table 4.13

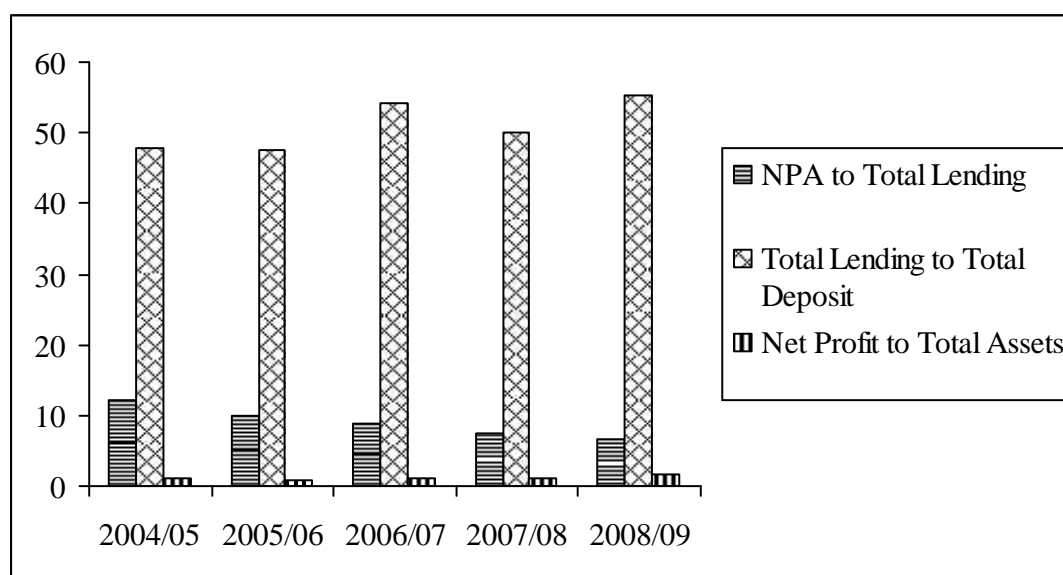
Relation between NPA, Net profit, Total lending and Total deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NPA to Total Lending	12.10	10.08	8.88	7.44	6.60	9.2
Total Lending to Total Deposit	47.89	47.61	54.30	50.07	55.27	51.03
Net Profit to Total Assets	1.14	0.91	1.06	1.11	1.55	1.15

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.7

Relation between NPA, Net Profit, Total Lending and Total Deposits



From Table 4.13 and Figure 4.7, it can be said that the ratio between the Non performing assets and total lending is found to be decreasing. It is found to be 12.10 % for the fiscal year 2004/05 which is found to be 6.60 % at the end of fiscal year 2008/09. The average ratio between NPA and total lending of five years period is 9.02 %. The decreasing trend of NPA to total lending ratio indicates the effectiveness in the management of NPA.

The total lending to total deposit ratio is following increasing trend. It is found to be 47.89 % for the fiscal year 2004/05 which has increased to 55.27 % for the end of year 2008/09, although it has been decreasing to 50.07 % for the fiscal year 2007/08. The average ratio between total lending to total deposit of five years period is 51.03 percent.

And the net profit to total assets ratio is also found to be increasing, it is found to be -1.14 % in the fiscal year 2004/05 and it becomes to 1.55 % for the fiscal year 2008/09, Although it has increased to 0.91 % for the fiscal year 2005/06. It shows a good trend of increasing the profit in comparison to total assets of the bank shows that the bank is able to increase its profit over the five years. The average ratio between net profits to total assets of five years period is 1.15 %.

Table 4.14

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	235,023,510	1,156,041,462
2005/06	212,128,485	1,092,839,487
2006/07	263,053,495	1,147,462,638
2007/08	308,275,171	1,001,347,320
2008/09	457,458,000	1,040,757,823

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

In Table 4.14, shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2004/05, the bank has NPA amounting to Rs 1156041462 and bank's net profit amounts to be Rs 235023510. In fiscal year 2005/06 the NPA amounts to Rs. 1092839487 i.e. NPA decreases by Rs 63201975 (i.e.5.47 %) in comparison of previous year. As the result the bank decrease its profit by Rs 22895025 in comparison of previous year and net profit reaches to Rs 21212885 at the end of fiscal year 2005/06.

In fiscal year 2006/07, unfortunately, the NPA amount increases by Rs 54623151 (i.e. 5.0 %) in comparison of previous year. As the result the bank could able to increase its net profit. The net profit increased by Rs 50925010 (i.e.24.01 %) in comparison to previous year and reached to Rs.263053495 at the end of the fiscal year.

In fiscal year 2007/08 the banks NPA decreases by 12.73 % i.e. Rs 146115318 and reaches to Rs.1001347320. As the result the net profit of the banks increases and reaches to Rs 308275171 at the end of fiscal year 2007/08.

Similarly, in fiscal year 2008/09, the NPA increases by 3.94 % i.e. Rs 3910503 and reaches to amount Rs 1040757823. The net profit highly increases to amount Rs 149182829 i.e.48.39% in comparison with previous year's net profit.

There is no doubt that the net profit of the bank affected by non performing assets. But NPA is not any cause for increment and decrement of the net profit. There are many factors other than NPA's, which affect the profit of the bank. So the bank should continue to control over the non performing assets.

Loan loss provisioning of Standard Chartered Bank Nepal Ltd:

The loan loss provision maintains by Standard Chartered Bank Nepal Ltd. is presented in the table 4.15

Table 4.15

Loan loss provisioning of Standard Chartered Bank Nepal Ltd:

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	0.99	1.00	1.00	1.00	1.01
Sub-standard loan	25% of sub-standard loan	24.29	27.92	26.08	60.20	57.78
Doubtful loan	50% of doubtful loan	48.22	49.13	50.71	47.23	68.16
Bad loan	100% of loss loan	94.50	96.60	97.79	99.54	100.26

Source: Annex 1(e)

Commercial banks have to maintained loan loss provision as per the NRB's directives for the commercial bank. In fiscal year 2004/05, the bank is unable to maintain the loan loss provision in all classes. The bank made 0.99 % loan loss provision for pass loan which is slightly lower than the requirement i.e.1 %. Similarly the bank made 24.29 %, 48.22 % and 94.50 % loan loss provision for substandard, doubtful and bad loan which are lower than as per the NRB's directives.

In fiscal year 2005/06, Loan loss provision for pass loan exactly met the NRB's directives. The bank made 27.92 % loan loss provision for sub-standard which is more than as per NRB's directives. It is found than the bank is unable to maintain loan loss provision for doubtful and bad loan as per the NRB's directives.

Fiscal year 2006/07, Loan loss provision for pass loan exactly met the NRB's directives. The bank made 26.08 % and 50.71 % loan loss provision for sub-standard and doubtful which is more than as per NRB's directives. It is found than the bank is

unable to maintain loan loss provision for bad loan as per the NRB's directives. The bank provisioned 97.79 % for bad loan.

In fiscal year 2007/08, Loan loss provision for pass loan exactly meets the NRB's directives, which is 1 percent of pass loan. Similarly, the bank made 60.20 % loan loss provision for sub-standard which is highly more than as per NRB's directives. It is found that the bank is unable to maintain loan loss provision for doubtful and bad loan as per the NRB's directives. The bank provisioned 47.23 % and 99.54% for doubtful and bad loan.

In fiscal year 2008/09, the bank made 1.01 % and 100.26 % for pass loan and bad loan which are slightly more than the requirement i.e. more than 1 % and 100 %. Similarly, the bank made 57.78 % and 68.16 % loan loss provision for sub-standard and doubtful loan which are highly more than as per NRB's directives.

It is found that the bank could not maintain loan loss provision, perfectly in accordance to the NRB's directives. The bank maintained higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.2.6 Data Presentation and Analysis of “ NABIL BANK LIMITED”:

Table No. 4.16

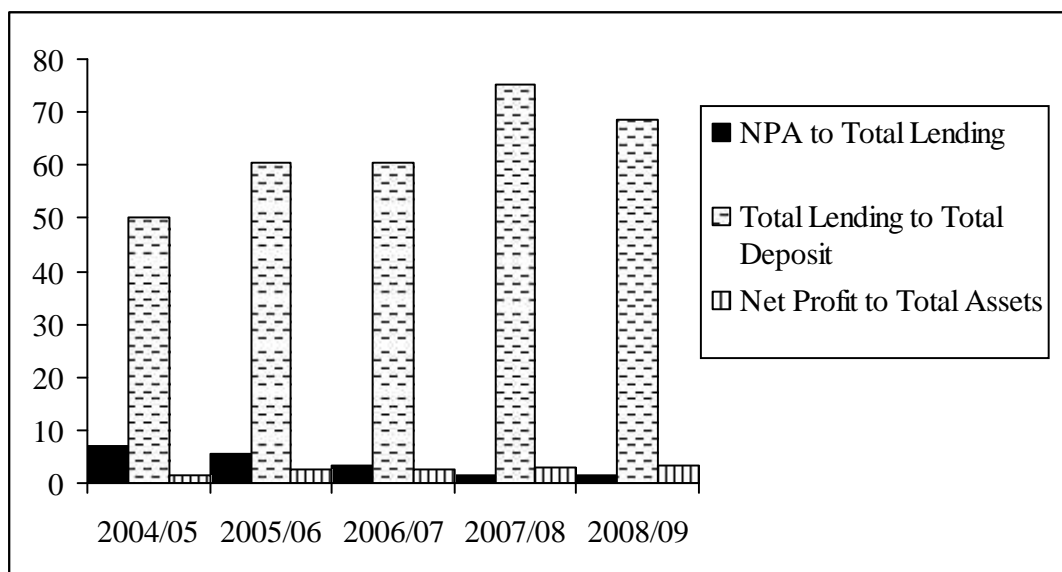
Relation between NPA, Net profit, Total lending and Total deposit

Ratio / year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NPA to Total Lending	7.14	5.54	3.35	1.32	1.38	3.75
Total Lending to Total Deposit	50.31	60.34	60.55	75.05	68.63	62.98
Net Profit to Total Assets	1.53	2.43	2.73	3.06	3.23	2.60

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

Figure No. 4.8

Relation between NPA, Net Profit, Total Lending and Total Deposits



From Table 4.16, it can be said that the ratio between the Non performing assets and total lending is found to decreasing trend, although it has been slightly increased to 1.38% for the year 2008/09. It is found to be 7.14% for the fiscal year 2004/05 which is found to be 1.38% at the end of fiscal year 2008/09. The average ratio between NPA and total lending of five years period is 3.75 %. The decreasing trend of NPA to total lending ratio indicates the effectiveness in the management of NPA.

The total lending to total deposit ratio is following increasing trend. It is found to be 50.31% for the fiscal year 2004/05 which has increased to 75.05 % for the end of year 2007/08. It is decreased in the fiscal year 2008/09 and reached to 68.03 %. The average ratio between total lending to total deposit of five years period is 62.98 %.

And the net profit to total assets ratio is also found to be increasing during the study period. It is 1.53 % for the fiscal year 2004/05 which is increased to 3.23 % for the fiscal year 2008/09 and the average ratio between net profits to total assets of five years period is 2.60 %. Increasing trend of the profit ,in comparison to total assets of the bank showing good management of the bank.

Table No. 4.17

Relation between Net Profit and Total NPA

Fiscal year	Net Profit	Total NPA
2004/05	271638612	556877682
2005/06	416235811	449630763
2006/07	455311222	286678920
2007/08	518635749	144506893
2008/09	635262439	182624480

Source: Annual reports of the concern bank of fiscal year 2004/05 to 2008/09

In Table 4.17, shows that the status of non-performing assets (NPA) and net profit of the bank in different years, in fiscal year 2004/05. The bank has NPA amounting to Rs 556877682 and bank's net profit amounts to Rs 271638612. In fiscal year 2005/06 the NPA amounts to Rs. 449630763 i.e. NPA decreases by Rs 107246919 (i.e.19.26 %) in comparison of previous year. As the result the bank increases its profit by Rs 144597199 in comparison of previous year and net profits reached to Rs 416235811 at the end of fiscal year 2005/06. The profit is increased for the following years and the non performing assets are in decreasing during the study period except 2008/09.

Similarly, in fiscal year 2008/09, the NPA increases by 26.38 % i.e. Rs 38117587 and reaches to amount Rs 182624480. The net profit increases by amount Rs 116626690 i.e.22.49 % in comparison with previous year's net profit and reaches to Rs 635262439. This trend of non performing assets indicates that the bank could not able concentration towards NPA in fiscal year 2008/09. Above analysis clearly states that the bank could able to increase its net profit due to decrement in non performing assets. So the bank should be continued to control over NPA.

Loan loss provisioning of Nabil Bank Ltd:

The loan loss provision maintains by Nabil Bank Ltd. is presented in the Table 4.18.

Loan loss provisioning of Nabil Bank Ltd:

Table 4.18

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.95	1.60	1.55	2.18	1.64
Sub-standard loan	25% of sub-standard loan	24.08	24.01	23.22	31.10	67.94
Doubtful loan	50% of doubtful loan	49.55	48.95	49.40	73.20	47.00
Bad loan	100% of loss loan	69.95	85.14	97.19	97.05	94.55

Source: Annex 1(f)

Commercial banks have to maintained loan loss provision as per the NRB's directives for the commercial bank. In fiscal year 2004/05, Loan loss provision for pass loan is 1.95 % which is higher than the requirement as per NRB's directives. But loan loss provision for substandard loan, doubtful loan and bad loan is found to be lower than the NRB's directives. The bank provisioned 24.08 %, 49.55 % and 69.55 % respectively for the substandard, doubtful and bad loan which are lower than that of requirement. The loan loss provision for bad loan is too much lower than NRB's directives.

In fiscal year 2005/06, Loan loss provision for pass loan is 1.60 % which is higher than the requirement as per NRB's directives. But loan loss provision for substandard loan, doubtful loan and bad loan are found lower than the NRB's directives. The bank provisioned 24.01 %, 48.95 % and 85.14 % respectively for the substandard, doubtful and bad loan which are lower than that of requirement.

Similarly in fiscal year 2006/07, Loan loss provision for pass loan is 1.55 % which is higher than the requirement as per NRB's directives. But loan loss provision for substandard loan, doubtful loan and bad loan are found lower than the NRB's

directives. The bank provisioned 23.22 %, 49.40 % and 97.19 % respectively for the substandard, doubtful and bad loan which are lower than that of requirement.

Fiscal year 2007/08, The bank has made 2.18 % loan loss provision for pass loan, 31.10% of sub standard loan and 73.20 % of doubtful loan respectively which are higher than requirement. It is found that the bank is unable to maintain loan loss provision for bad loan as per the NRB's directives. The bank made 97.05 % provisioned for bad loan.

Fiscal year 2008/09, The bank has made 1.64 % loan loss provision for pass loan and 67.94 % of sub standard loan respectively which are higher than requirement. It is found that the bank unable to maintain loan loss provision for bad loan and doubtful loan as per the NRB's directives. The bank made 97.05 % and 47.00 % provisioned for bad loan and doubtful loan respectively.

It is found that the bank could not maintain loan loss provision, perfectly in accordance to the NRB's directives. The bank maintains higher than requirement for one class loan when lower for another class. Therefore, the bank should give priority to maintain loan loss provision as requirement as per NRB's directives.

4.3 Performing and Non performing assets of commercial banks in Total Assets, Total Lending and Total Deposit

Table No. 4.19
Performing and Non- Performing assets of commercial banks in
Total Assets, Total Lending & Total Deposit

Bank	Assets		Lending		Deposit	
	% of PA to TA	% of NPA to TA	% of PA to TL	% of NPA to TL	% of PA to TD	% of NPA to TD
KBL	67.09	14.27	83.08	16.59	73.35	14.75
NIBL	62.64	1.00	98.43	1.57	74.15	1.19
LBL	59.67	10.28	85.41	14.59	67.15	11.56
NSBIBL	60.12	4.40	93.17	6.83	71.84	5.25
SCBNL	45.04	4.42	90.98	9.02	50.14	4.92
Nabil	51.64	1.85	96.25	3.75	60.8	2.18

Source: Annex 2

Up to the fiscal year 2004/05, Kumari Bank Ltd has performing assets is amounted Rs 1843850969 which is increased by Rs 471732617 (i.e. 25.58 %) and reached to Rs 2315583586 in the end of fiscal year 2005/06. It is further increased by 28.93 % for the fiscal year 2006/07 and again it is increased by 4.64 % (i.e. Rs 138556418) 2007/08 and reached to amount Rs 3124006435. The performing assets is decreased by Rs 141662448 (i.e. 4.53 %) at the end of the year 2062/62 and reached to amount Rs 2982343987.

The total assets of the Kumari Bank is fluctuating during the five years period. The percentage of performing assets to total asset is increased from 60.22 % for the year ended 2004/05 to 70.02% at the end of fiscal year 2008/09. The average percentage of performing assets to total assets of the five years periods is found to be 67.09%. This trend of performing assets clearly indicates that the bank is able to control and supervise its lending properly. It also indicates that the bank is able to repay it's lending within stated time period.

The total lending is increasing trend during the study period. The percentage of performing assets to total lending is 80.86% for the end of the year 2004/05 and which is increased for following two years and reached 92.64% at the end of the fiscal year 2060/62. It is decreased to 84.77% in the fiscal year 2007/08 and again it is decreased and reached to 69.01 % for the end of fiscal year 2008/09 and the average percentage of performing assets to total lending of five years was 83.08 %. This trend of performing assets indicates that the bank could able to control and supervise its lending properly up to fiscal year 2006/07 and further the bank could not control over it.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit is increased to the fiscal year 2006/07 and reached to 79.03 %. Then it is decreased to 62.31 % at the end of the year 2008/09. 73.35% is the average percentage of performing assets to total deposit of five years period. This trend of performing assets indicates that the bank could able to increase its performing loan through regular control and supervision of its lending upto fiscal year 2006/07. But in fiscal year 2007/08 the bank could not control non performing assets. It might be failed to evaluate the credit worthiness of borrower might be failed to evaluate the collateral taken by the bank from the borrower.

The total non performing assets (NPA) of Kumari Bank Ltd has Rs 441641381 at the end of fiscal year 2004/05 which is decreased by 30.54 % and reached to Rs 306776772 in the fiscal year 2005/06. It is further decreased by 22.65 % and reached to Rs. 237298336 at the end of fiscal year 2006/07. Unfortunately the total NPA of the bank is highly increased by Rs 263839936 (i.e.111.18 %) in the fiscal year 2007/08 and it is further highly increased by 167.25 % (i.e. Rs 838114518) and reached to Rs. 1339242790 at the end of fiscal year 2008/09.

The percentage of NPA to total assets of Kumari Bank ltd for the year ended 2004/05 was 14.42 % which is decreased to 8.92 % in the end of F/Y and it is further decreased to 5.44 % at the end of F/Y 2006/07. From the year 2006/07 the percentage of NPA to total assets is highly increased with increased in the amount of NPA and reached to 31.44 % at the end of F/Y 2008/09. The average percentage of NPA to total assets of five years is 14.27 %.

Similarly, the percentage of NPA to total lending as well as percentage of NPA to total deposit is same trend. It is decreased for the fiscal year 2005/06 and 2006/07. But it is highly increased for the year 2007/08 as well as 2008/09.

This trend of non performing assets indicates that the bank could not able concentration towards NPA in fiscal year 2006/07. Because of poor control, supervision and concentration, the bank fails to recover its lending (NPA) in fiscal year 2006/07. Higher level of NPA indicates the poor financial position and poor assets management of the bank.

Up to the fiscal year 2004/05, Standard Chartered Bank Ltd has performing assets amounted Rs 8401,096,542 which is increased every year during the study period and reached to Rs 14,721,218,259 in the end of fiscal year 2008/09.

The total asset of the Standard Chartered Bank Nepal is increasing during the five years period. The percentage of performing assets to total asset is increased from 40.64 % for the year ended 2004/05 to 49.97 % at the end of fiscal year 2008/09. The average percentage of performing assets to total assets of the five years periods is found to be 45.04 %. But it is slightly decreased in the fiscal year 2007/08. This trend of performing assets clearly indicates that the bank able to control and

supervise its lending properly. It also indicates that the bank was able to repay its lending within stated time period.

The total lending is increasing trend during the study period. The percentage of performing assets to total lending is 87.90 % for the end of the fiscal year 2004/05 and which is increased during the five years period and reached to 93.40 % for the end of fiscal year 2008/09 and the average percentage of performing assets to total lending of five years is 90.98 %. This trend of performing assets indicates that the bank could able to control and supervise its lending properly.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit is increasing trend for the five years period and it is slightly decreased in the fiscal year 2007/08. The percentage of performing assets to total deposit was 45.12 % for the end of the fiscal year 2004/05 and which is increased during the five years period and reached to 55.57 % for the end of fiscal year 2008/09 and the average percentage of performing assets to total lending of five years is 50.14 %.

The total non performing assets (NPA) of Standard Chartered Bank Nepal Ltd had Rs 1,156,041,462 at the end of fiscal year 2004/05 which is decreased by 5.47 % and reached to Rs 1092,839487 in the fiscal year 2005/06. Unfortunately it is increased by 5 % and reached to Rs. 1147462638 at the end of fiscal year 2006/07. In the fiscal year 2007/08 total NPA is decreased and reached to Rs 1001347320 and in fiscal year 2062/62 it is slightly increased by 3.94 % and reached amount to Rs 1040757823.

The percentage of NPA to total assets of Standard Chartered Bank Ltd for the year ended 2004/05 is 5.59 % which is decreased during five years period and reached to 3.53 % for the year ended 2008/09 although the amount of NPA during the five years period is fluctuating. It indicates that the good financial position as well as good assets management of the bank.

Similarly, the percentage of NPA to total lending as well as percentage of NPA to total deposit is same trend. During the study period the percentage of NPA to total lending and percentage of NPA to total deposit is in decreasing trend.

This trend of non performing assets indicates that the bank could able to control towards NPA during the five years period. Because of good control, supervision and concentration, the bank could recover its lending (NPA). Decreasing trend of percentage of non performing assets (NPA) indicates the good financial position as well as assets management of the bank.

Up to the fiscal year 2004/05, Nepal SBI Bank Ltd has performing assets amounting Rs 4294628538 which is increased every year during the study period and reached to Rs 7736119625 in the end of fiscal year 2008/09.

The total asset, of the Nepal SBI Bank is increasing during the five years period. The percentage of performing assets to total asset is 61.17% for the fiscal year 2004/05 which is decreased and reached to 57.74 % for the year ended 2004/05. The percentage of performing assets to total assets is increased for the fiscal year 2006/07 and unfortunately it is decreased for the following two years and reached to 59.39 % for the fiscal year 2008/09. The average percentage of performing assets to total assets of the five years periods is found to be 60.12 %.

The total lending is in increasing trend during the study period. The percentage of performing assets to total lending is 93.68 % for the end of the year 2004/05 and which is decreased in the year 2005/06 and reached 91.10 % The percentage of performing assets to total lending is increased for the fiscal year 2006/07 and it is slightly decreased for the year 2007/08. It is slightly increased for the year ended 2008/09 and reached to 93.87 % and average percentage of performing assets to total lending of five years is 93.17 %.

Similarly, the percentage of performing assets to total deposit is fluctuating over the five years period. It is 77.07 % for the year ended 2004/05 which is decreased in the fiscal year 2005/06 and there after it is increased for the following two fiscal year. Then it is decreased to 70.32 % at the end of the year 2008/09. 71.84 % is the average percentage of performing assets to total deposit of five years period.

This trend of performing assets indicates that the bank could able to increase its performing loan through regular control and supervision of its lending during the

research period. But in fiscal year 2006/07 the bank could concentrate its non performing assets.

The total non performing assets (NPA) of Nepal SBI Bank Ltd has Rs 289766401 at the end of fiscal year 2004/05 which is increased by 47.34 % and reached to Rs 426947082 in the fiscal year 2005/06. It is decreased for the fiscal year 2006/07 and reached to Rs 345821458. Unfortunately the total NPA of the bank is highly increased for the following two fiscal year and reached amount to Rs 505336919 for the fiscal year ended 2008/09.

The percentage of NPA to total assets of Nepal SBI Bank ltd for the year ended 2004/05 is 4.13 % which is increased in the end of fiscal year 2005/06 and reached to 5.64 %. It is decreased to 4.10 % at the end of F/Y 2006/07. It is slightly increased for the year 2007/08. The percentage of NPA to total assets is decreased and reached to 3.88 % at the end of F/Y 2008/09. The average percentage of NPA to total assets of five years is 4.40 %.

The percentage of NPA to total Lending of Nepal SBI Bank ltd for the year ended 2004/05 is 6.32 % which is increased in the end of fiscal year 2005/06 and reached to 8.90 %. It is decreased to 6.25 % at the end of F/Y 2006/07. It is slightly increased for the year 2007/08. The percentage of NPA to total assets is decreased and reached to 6.13 % at the end of fiscal year 2008/09. The average percentage of NPA to total lending of five years is 6.83 %.

The percentage of NPA to total deposit of Nepal SBI Bank ltd for the year ended 2004/05 is 5.20 % which is increased in the end of fiscal year 2005/06 and reached to 6.55 %. It is decreased to 4.80 % at the end of F/Y 2006/07. It is slightly increased for the year 2007/08. The percentage of NPA to total assets is decreased and reached to 4.59 % at the end of F/Y 2008/09. The average percentage of NPA to total deposit of five years is 5.25 %.

Up to the fiscal year 2004/05, Laxmi Bank Ltd has performing assets amounted Rs 6808770842 which is increased in the fiscal year 2005/06 and reached to Rs 6948236456 and further increased to Rs 8602513914 at the end of fiscal year

2006/07. It is decreased for the year ended 2007/08 and reached to amount Rs 7793969752.

The total assets of the Laxmi Bank Limited are increasing from the fiscal year 2006/07 from the fiscal year 2004/05. Total assets of the bank is decreased in the year 2007/08 with compare to previous year. The percentage of performing assets to total asset is 61.33 % for the fiscal year 2004/05 which is decreased and reached to 58.30 % for the year ended 2004/05. The percentage of performing assets to total assets is increased for the fiscal year 2006/07 and it is decreased for the fiscal year 2008/09 and reached to 58.70 %. The average percentage of performing assets to total assets of the four years periods is found to be 59.67 %.

The total lending is fluctuating during the study period. The percentage of performing assets to total lending is 84.23 % for the end of the year 2004/05 and which is increased in the year 2005/06 and reached 87.27 %. It is 89.19 % for the fiscal year 2006/07. It is highly decreased for the year ended 2007/08 and reached to 80.96 % and average percentage of performing assets to total lending of four years is 85.41 %.

The total deposit is in increasing trend although it is decreasing in the fiscal year 2061/662. The percentage of performing assets to total deposit is 71.56 % for the end of the year 2004/05 and which is decreased in the year 2005/06 and reached 65.60 %. It is increased in the fiscal year 2006/07 and reached to 67.17 %. It is decreased for the year ended 2007/08 and reached to 64.28 % and average percentage of performing assets to total lending of four years is 67.15 %. This trend of performing assets indicates that the bank could able to increase its performing loan through regular control and supervision of its lending during the research period.

The total non performing assets (NPA) of Laxmi Bank Ltd has Rs 1275215869 at the end of fiscal year 2004/05 which is increased and reached to Rs 1013274712 in the fiscal year 2005/06. It is increased for the fiscal year 2006/07 and reached to Rs 1042180827. Unfortunately the total NPA of the bank is highly increased for the fiscal year 2007/08 and reached amount to Rs 1832943785. The percentage of NPA to total assets of Laxmi Bank Ltd for the year ended 2004/05 is 11.9 % which is

decreased in the end of fiscal year 2005/06 and reached to 8.50 %.It is further decreased to 7.31 % at the end of F/Y 2006/07. It is highly increased for the year 2007/08 and reached to 13.81 % and the average percentage of NPA to total assets of four years is 10.28 %.

The percentage of NPA to total Lending of Laxmi Bank Ltd for the year ended 2004/05 is 15.77 % which is decreased in the end of fiscal year 2005/06 and reached to 12.73 %.It is further decreased to 10.81 % at the end of F/Y 2006/07. It is slightly increased for the year 2007/08and reached to 19.04 % and the average percentage of NPA to total lending of four years is 14.59 %.

The percentage of NPA to total deposit of Laxmi Bank Ltd for the year ended 2004/05 is 13.40 % which is decreased in the end of fiscal year 2005/06 and reached to 9.57 %.It is increased to 8.14 % at the end of F/Y 2006/07. It is highly increased for the year 2007/08. The average percentage of NPA to total deposit of four years is 11.56 %. This trend of non performing assets indicates that the bank could able to control towards NPA during the four years period. The increasing trend of NPA indicates the bad sign of management in lending.

Up to the fiscal year 2004/05, Nepal Investment Bank Ltd has performing assets amounted Rs 4001840315 which is increased and reached to Rs 4938390206 in the end of fiscal year 2005/06. It is further increased every year and reached amount to 100070018658 for the fiscal year 2006/07.The total assets of the Nepal Investment Bank are increasing during the five years period. The percentage of performing assets to total asset is increased from 60.57 % for the year ended 2004/05 to 66.24 % at the end of fiscal year 2007/08 but it is decreased in the fiscal year 2008/09 and reached to 62.70 %. The average percentage of performing assets to total assets of the five years periods is found to be 62.64 %.

The total lending is in increasing trend during the study period. The percentage of performing assets to total lending is 98.95 % for the end of the year 2004/05 and which is decreased for the year 2005/06 and reached 97.80 %. It is increased to 98.28 % in the fiscal year 2007/08 and it is further increased and reached to 98.73 % for the end of fiscal year 2008/09. The average percentage of performing assets to total lending of five years is 98.43 %.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit is increased to the fiscal year 2007/08 and reached to 76.96 %. Then it is decreased to 72.50 % at the end of the year 2008/09. 74.15% is the average percentage of performing assets to total deposit of five years period. This trend of performing assets indicates that the bank could able to increase its performing loan through regular control and supervision of its lending. But in fiscal year 2062/6 the bank could not control the percentage of performing assets

The total non performing assets (NPA) of Nepal Investment Bank Ltd has Rs 42388116 at the end of fiscal year 2004/05 which is increased and reached to Rs 111191103 in the fiscal year 2005/06. It is decreased to Rs. 104764369 at the end of fiscal year 2006/07. Unfortunately the total NPA of the bank is highly increased to Rs 128807745 in the fiscal year 2007/08 and it is further increased and reached amount to Rs. 129235790 at the end of fiscal year 2008/09. The percentage of NPA to total assets of Nepal Investment Bank ltd for the year ended 2004/05 is 0.64 % which is increased to 1.38 % in the end of fiscal year 2005/06. It is decreased to 1.09 % at the end of F/Y 2006/07. It is decreased in the fiscal year 2008/09 and reached to 0.81 % and the average percentage of NPA to total assets of five years is 1.00 %.

The percentage of NPA to total lending of Nepal Investment Bank ltd for the year ended 2004/05 is 1.05 % which is increased to 2.20 % in the end of fiscal year 2005/06. It is decreasing for the following three years and it is reached to 1.27 % in the fiscal year 2008/09 and reached to 0.81 % and the average percentage of NPA to total assets of five years is 1.57 %.

The percentage of NPA to total assets of Nepal Investment Bank ltd for the year ended 2004/05 is 0.78 % which is increased to 1.66 % in the end of fiscal year 2005/06. It is decreased to 1.30 % at the end of F/Y 2006/07. It is decreased in the fiscal year 2008/09 and reached to 0.94 % and the average percentage of NPA to total assets of five years is 1.19 %.

Up to the fiscal year 2004/05, Nabil Bank Ltd has performing assets amounted Rs 7244970881 which is increased every year during the study period and reached amount to 13096157779 for the fiscal year 2008/09. The total assets of the Nabil Bank are increasing during the five years period. The percentage of performing

assets to total asset is increased from 41.10 % for the year ended 2004/05 to 62.85 % at the end of fiscal year 2007/08 but it is decreased in the fiscal year 2008/09 and reached to 58.65 %. The average percentage of performing assets to total assets of the five years periods is found to be 51.64 %.

The total lending is in increasing trend during the study period. The percentage of performing assets to total lending is increase from 92.86 % for the end of the year 2004/05 to 98.68 % for the year 2007/08. It is slightly decrease in the fiscal year 2008/09 and the average percentage of performing assets to total lending of five years is 96.25%.

Similarly, like a percentage of performing assets to total lending, the percentage of performing assets to total deposit is increased to the fiscal year 2007/08 and reached to 74.06 %. Then it is decreased to 67.69 % at the end of the year 2008/09 and the average percentage of performing assets to total deposit of five years period is 60.80%

The total non performing assets (NPA) of Nabil Bank Ltd has Rs 556877682 in the year 2004/05 and it is decreasing during the five years period and reached amount to 182624480 for the fiscal year 2008/09. The percentage of NPA to total assets of Nabil Bank Ltd for the year ended 2004/05 was 3.16 % which is decreased during the study period and reached to 0.82 % in the end of fiscal year 2008/09. The average percentage of NPA to total assets of five years is 1.85 %.

The percentage of NPA to total lending of Nabil Bank Ltd for the year ended 2004/05 is 7.14 % which is decreased for the following three years and reached to 1.32 % in the end of fiscal year 2007/08. It is slightly increased for the years 2008/09 and reached to 1.38 %. The average percentage of NPA to total assets of five years is 3.75 %.The percentage of NPA to total assets of Nabil Bank Ltd for the year ended 2004/05 is 3.59 % which is increased during the study period and reached to 0.94 % in the end of fiscal year 2008/09. The average percentage of NPA to total assets of five years is 2.18 %.

4.4 Percentage Performing and Non performing Assets of Commercial banks in Total loan

Table 4.20
Percentage Performing and Non performing Assets of
Commercial banks in Total loan

Banks	Performing Asset		Non Performing Asset		
	PL /TL	RL /TL	SL /TL	DL /TL	BL /TL
KBL	80.85	5.58	4.39	3.00	9.54
NIBL	97.13	3.25	0.64	0.36	0.91
LBL	85.41	0.00	3.49	3.97	7.13
NSBIBL	87.09	6.08	0.94	1.24	4.65
SCBNL	88.09	3.64	1.82	1.72	4.73
Nabil	95.88	0.93	1.04	1.48	1.22

Source: Annex 3

Up to fiscal year 2004/05 Kumari Bank Ltd has total loan and advances amounted Rs 2285492350 which is increased by Rs 336868008 (i.e. 14.74 %) and reached to Rs 2622360358 in the end of fiscal year 2005/06. During the study period, total loan of the bank is increasing every year and reached to Rs 4321586777 at the end of fiscal year 2008/09. In this way, Kumari Bank Ltd has been extending its lending to fulfill market demands of loan.

The percentage of performing assets (i.e. percentage of pass loan to total loan) of Kumari Bank has 80.68 % in the fiscal year 2004/05 which is increased to 88.30 % in the fiscal year 2005/06 and further it is increased to 92.64% in the fiscal year 2006/07. For the fiscal year 2007/08 the percentage of pass loan to total loan and restructured loan to total loan is found be 78.36 % and 6.42 % respectively which is decreased to 64.27 % and 4.74 % in the fiscal year 2008/09. The average percentage of pass loan to total loan and restructured loan to total loan of five years are 80.85 % and 5.58 % respectively.

The percentage of substandard loan to total loan of Kumari Bank has 12.54 % in the fiscal year 2004/05 which is decreased to 6.05 % in the fiscal year 2005/06 and further it is decreased to 0.52% in the fiscal year 2006/07. In fiscal year 2008/09 it is

increased and reached to 1.21% and the average percentage of substandard loan to total loan of five years is 4.39 %.

The percentage of doubtful loan to total loan of Kumari Bank has 4.13 % in the fiscal year 2004/05 which is decreased to 0.61 % in the fiscal year 2008/09 and the average percentage of doubtful loan to total loan of five years is 3.00 %. But unfortunately the percentage of bad loan to total loan of Kumari Bank has increasing during the study period. It is 0.65 % in the fiscal year 2004/05 which is increased to 29.16 % in the fiscal year 2008/09 and the average percentage of bad loan to total loan of five years is 9.54 %.

Up to fiscal year 2004/05 Nepal Investment Bank Ltd has total loan and advances amounted Rs 4044228431 which is increased every years during the study period i.e. five years period and it has become to Rs 10136254448 in the fiscal year 2008/09. The percentage of pass loan to total loan of Nepal Investment Bank has 98.95 % in the fiscal year 2004/05 which is decreased to 97.80 % in the fiscal year 2005/06. But it is slightly increased and reached to 98.28 % in the fiscal year 2006/07. In the fiscal year it is highly decreased and reached to 94.34 % and for fiscal year 2008/09 the percentage of pass loan to total loan is found to be 96.26 % . The average percentage of pass loan to total loan of five years is 97.13 %.

The percentage of restructured loan to total loan of Nepal Investment Bank is 4.03 % in the fiscal 2007/08 which is decreased to 2.46 % in the fiscal year 2008/09. The average percentage of restructured loan to total loan of two years is 3.25 %. The percentage of substandard loan to total loan of Nepal Investment Bank has 0.39 % in the fiscal year 2004/05 which is decreased to 0.82 % in the fiscal year 2005/06. It is increased in the fiscal year 2061/61 and reached to 1.82 % and it is highly decreased to 0.06 % for the fiscal year 2007/08. It is 0.11 % in the fiscal year 2008/09 and the average percentage of substandard loan to total loan of five years period is 0.64 %.

The percentage of doubtful loan to total loan of Nepal Investment Bank has 0.33 % in the fiscal year 2004/05 which is increased to 0.75 % in the fiscal year 2005/06. It is highly decreased in the fiscal year 2061/61 and reached to 0.66 % and again it is highly decreased to 0.03 % for the fiscal year 2007/08. It is 1.56 % in the fiscal year

2008/09 and the average percentage of doubtful loan to total loan of five years period is 0.36 %.

The percentage of bad loan to total loan of Nepal Investment Bank has 0.33 % in the fiscal year 2004/05 which is increased to 0.62 % in the fiscal year 2005/06. It is further increased to 0.87 % and 1.55 % in the fiscal year 2006/07 and 2007/08 respectively. It is 1.56 % in the fiscal year 2008/09 and the average percentage of bad loan to total loan of five years period is 0.91 %.

Upto fiscal year 2004/05 Laxmi Bank Ltd has total loan and advances amounted Rs 8083986711 which is decreased by Rs 122475654 (i.e. 1.52 %) and reached to Rs 7961511057 in the end of fiscal year 2005/06. It is increased by 21.14 % and reached to Rs 9644694741 in the fiscal year 2007/08 but in the fiscal year 2007/08 it is decreased by Rs 17781204 (i.e. 0.81%) and reached to Rs 9626913537.

The percentage of performing assets (i.e. percentage of performing loan to total loan) of Laxmi Bank has 84.23 % in the fiscal year 2004/05 which is increased to 87.27 % in the fiscal year 2005/06 and further it is increased to 89.19 % in the fiscal year 2006/07. For the fiscal year 2007/08 the percentage of performing loan to total loan is found 80.96 %. The average percentage of pass loan to total loan of four years is 85.41 %. The percentage of substandard loan to total loan of Laxmi Bank has 9.25 % in the fiscal year 2004/05 which is decreased to 2.09 % in the fiscal year 2005/06 and further it is decreased to 1.33 % in the fiscal year 2006/07. In fiscal year 2007/08 it is 1.25 % and the average percentage of substandard loan to total loan of four years is 3.49 %.

The percentage of doubtful loan to total loan of Laxmi Bank has 5.22 % in the fiscal year 2004/05 which is decreased to 1.67 % in the fiscal year 2007/08 and the average percentage of doubtful loan to total loan of four years is 3.97 %.

But unfortunately the percentage of bad loan to total loan of Laxmi Bank has increasing during the study period. It is 1.28 % in the fiscal year 2004/05 which is increased to 16.12 % in the fiscal year 2007/08 and the average percentage of bad loan to total loan of four years is 7.13 %.

Up to fiscal year 2004/05 Nepal SBI Bank Ltd had total loan and advances amounted Rs 458394939 which is increased every years during the study period i.e. five years period it has become to Rs 8241456544 in the fiscal year 2008/09. The percentage of pass loan to total loan of Nepal SBI Bank has 85.33 % in the fiscal year 2004/05 which is increased to 86.43 % in the fiscal year 2005/06 but it is slightly decreased and reached to 86.09 % in the fiscal year 2006/07. For the fiscal year 2007/08 the percentage of pass loan to total loan was found 87.35 % and it is increased to 87.35 % in the fiscal year 2008/09. The average percentage of pass loan to total loan of five years is 87.09 %.

The percentage of restructured loan to total loan of Nepal SBI Bank is 7.80 % in the fiscal 2004/05 which is decreased to 4.67 % in the fiscal year 2005/06. But unfortunately it is increased to 7.65 % for the end of the fiscal year 2006/07. Again the bank is able to decrease the percentage and it is reached to 4.16 % for the year ended 2062/62. The average percentage of restructured loan to total loan of five years is 6.08 %.

The percentage of substandard loan to total loan of Nepal SBI Bank has 1.95 % in the fiscal year 2004/05 which is increased to 2.53 % in the fiscal year 2005/06. The bank could able to reduce the percentage of substandard loan to total upto 0.02 % for the year ended 2008/09 and the average percentage of substandard loan to total loan of five years period is 0.94 %.

The percentage of doubtful loan to total loan of Nepal SBI Bank has 1.35 % in the fiscal year 2004/05 which is increased to 3.48 % in the fiscal year 2005/06 and it is decreased to 0.05 % in the fiscal year 2008/09. The average percentage of doubtful loan to total loan of five years period is 3.97 %. But unfortunately the percentage of bad loan to total loan of Nepal SBI Bank is increasing during the study period. It is 3.02 % in the fiscal year 2004/05 which is increased to 6.06 % in the fiscal year 2007/08 though it is decreased in the fiscal year 2005/06 which was 2.89 % and the average percentage of bad loan to total loan of five years is 4.65 %.

Up to fiscal year 2004/05 Standard Chartered Bank Nepal Ltd has total loan and advances amounted Rs 9557138004 which is increased every years during the study period i.e. five years period it has become to Rs 15761979082 in the fiscal year

2008/09. The percentage of pass loan to total loan of Standard Chartered Nepal Bank has 87.90 % in the fiscal year 2004/05 which is increased to 88.21 % in the fiscal year 2005/06 but it is slightly decreased and reached to 87.28 % in the fiscal year 2006/07. For the fiscal year 2008/09 the percentage of pass loan to total loan is found 89.17 % which was increased by 17.18 % with compare to previous year i.e. fiscal year 2007/08 and the average percentage of pass loan to total loan of five years is 88.09 %.

The percentage of restructured loan to total loan of Standard Chartered Bank is 3.75 % in the fiscal 2004/05 which is decreased to 1.71 % in the fiscal year 2005/06. But unfortunately it is increased to 3.84 % for the end of the fiscal year 2006/07 and 4.23 % for the end of the fiscal year 2008/09. The average percentage of restructured loan to total loan of five years is 3.64 %.

The percentage of substandard loan to total loan of Standard Chartered Bank has 2.58 % in the fiscal year 2004/05 which is decreased to 2.07 % in the fiscal year 2005/06. It is increased in the fiscal year 2061/61 and reached to 3.28 % and it is decreased to 0.52 % for the fiscal year 2007/08. It is 0.68 % in the fiscal year 2008/09 and the average percentage of substandard loan to total loan of five years period is 1.82 %. The percentage of doubtful loan to total loan of Standard Chartered Bank has 1.47 % in the fiscal year 2004/05 which is increased to 3.46 % in the fiscal year 2005/06. It is highly decreased in the fiscal year 2061/61 and reached to 0.42 % and it is increased to 1.80 % for the fiscal year 2007/08. It was 1.45 % in the fiscal year 2008/09 and the average percentage of doubtful loan to total loan of five years period is 1.72 %.

The percentage of bad loan to total loan of Standard Chartered Bank has 4.29 % in the fiscal year 2004/05 which is increased to 4.55 % in the fiscal year 2005/06. It is further increased to 5.18 % in the fiscal year 2061/61 and it is decreased to 5.13 % for the fiscal year 2007/08. It is 4.47 % in the fiscal year 2008/09 and the average percentage of bad loan to total loan of five years period is 4.73 %.

Up to fiscal year 2004/05 Nabil Bank Ltd had total loan and advances amounted Rs 7801848563 which is increased by Rs 311835658 (i.e. 4.00 %) and reached to Rs 8133684221 in the end of fiscal year 2005/06. During the study period, total loan of the bank is increasing every year and reached to Rs 13278782259 at the end of fiscal

year 2008/09 which is increased by Rs 2332045682 (i.e.21.30 %) of the previous year. The percentage of performing assets (i.e. percentage of pass loan to total loan) of Nabil Bank has 92.86 % in the fiscal year 2004/05 which is increased to 94.46 % in the fiscal year 2005/06 and further it is increased to 96.65 % in the fiscal year 2006/07. For the fiscal year 2007/08 the percentage of pass loan to total loan and restructured loan to total loan is found 97.45 % and 1.23 % respectively which is decreased to 97.98 % and 0.64 % in the fiscal year 2008/09. The average percentage of pass loan to total loan and restructured loan to total loan of five years is 95.88 % and 0.92 % respectively.

The percentage of substandard loan to total loan of Nabil Bank has 3.34 % in the fiscal year 2004/05 which is decreased to 0.94 % in the fiscal year 2005/06 and further it is decreased to 0.20 % in the fiscal year 2007/08. In fiscal year 2008/09 it is increased and reached to 0.47% and the average percentage of substandard loan to total loan of five years is 1.04%. The percentage of doubtful loan to total loan of Nabil Bank had 2.96 % in the fiscal year 2004/05 which is decreased to 0.22 % in the fiscal year 2008/09 and the average percentage of doubtful loan to total loan of five years is 1.48 %.

The percentage of bad loan to total loan of Nabil Bank has 0.84 % in the fiscal year 2004/05 which is increased to 1.16 % in the fiscal year 2005/06 and further it is increased to 2.33 % in the fiscal year 2007/08. In fiscal year 2007/08 it is 1.10 % and which is increased in fiscal year 2008/09 and reached to 0.68 %. The average percentage of bad loan to total loan of five years is 1.22 %.

4.5 Correlation Analysis

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to other variable. Two or more variable are said to be correlated if change in the value of one variable appears to related or linked with the change in the value of other variable. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree to the closeness of the relationship between the different variables. In the correlation analysis, only one variable is treated as the dependent variable and one or more variables are treated as independent.

Correlation Analysis generally used to describe the degree to which one variable is related to another, in statistics is used in order to depict the covariance between two or more variables. It helps to determine whether

-) A positive or negative relation exists
-) The relation is significant or insignificant
-) Establishes cause and effect relation if any

4.5.1 Correlation between NPA and ROA of the commercial banks

The statistical tool, 'correlation analysis' is preferred in this study to identify the relationship between NPA and ROA and whether the relationship is significant or not. Here NPA denotes the percentage of NPA in total lending of the bank and ROA denotes the net profit as percentage of total assets of the banks.

Table 4.21
Correlation between NPA and ROA of the commercial bank

Bank	coefficient of correlation (r)	Relationship	Coefficient of determination (r ²)	Probable error (P.E.)	Significant/ insignificant
KBL	-0.93	negative	0.87	0.04	Significant
NIBL	-0.41	negative	0.17	0.25	insignificant
LBL	0.20	positive	0.04	0.29	insignificant
NSBIBL	-0.26	negative	0.07	0.28	insignificant
SCBNL	-0.57	negative	0.32	0.20	insignificant
Nabil	-0.96	negative	0.92	0.025	significant

Source: Annex 4

Table 4.21 the correlation coefficient between the Non Performing Assets to Returns on Assets shows that there is negative relationship between these two variables. The established theory also states that the Profit and Non Performing Assets also flow in the opposite direction. When the amount of NPA is lesser, profit would be high and whenever the amount of NPA is more then profit goes on decreasing, which is explained by the above table.

KBL and Nabil have the correlation coefficient of -0.93 and -0.96 which are categorized as having high degree of negative correlation. And 87 % and 92 % of the profitability is affected by the NPA to the respective banks and rest is affected by

the other factor. And the test so made for these two banks is found to be significant as the correlation is greater than Probable error (P.E.) multiplied by six times.

SCBNL has the correlation coefficient of -0.57 which is categorized as having moderate degree of negative correlation. Only 32 % of the relationship is affected by the NPA in the increment of the profitability of the bank. As the coefficient of determination of the bank is found to be 32 % and remaining 68 % for the individual bank is affected by other factor. Further more, the value of P.E.is 0.20 for bank indicating an insignificant relationship between them.

NSBIBL and NIBL have the correlation coefficient of -0.26 and -0.41 which are categorized as having low degree of negative correlation. And 7 % and 17 % of the profitability is affected by the NPA to the respective banks and rest is affected by the other factor. Since the P.E. for the NSBIBL is more than the coefficient of correlation bank indicating insignificant. Similarly P.E. of NIBL multiplied by is more than the coefficient of correlation NIBL indicating insignificant.

Only LBL has low degree of positive correlation coefficient i.e. higher the level of NPA would higher in the returns and vice versa. Only 4 % of the profit is affected by non performing assets and remaining 96 % is affected by other factors. Further more, the value of P.E. is 0.29 for bank indicating an insignificant relationship between them.

From the above calculations, it can conclude that the profitability of the individual bank is fully dependent in the Non-Performing Assets of the respective banks. Higher the NPA lower will be the net profit and vice versa.

4.5.2 Correlation between NPA and Total Lending of the commercial banks

The statistical tool, 'correlation analysis' is preferred in this study to identify the relationship between NPA and Total lending and whether the relationship is significant or not.

Table 4.22

Correlation between NPA and Total Lending of the Commercial Bank

Bank	coefficient of correlation (r)	Relationship	Coefficient of determination (r ²)	Probable error (P.E.)	Significant/ insignificant
KBL	0.77	positive	0.60	0.12	Significant
NIBL	0.77	positive	0.59	0.12	Significant
LBL	0.45	positive	0.20	0.27	insignificant
NSBIBL	0.81	positive	0.65	0.10	Significant
SCBNL	-0.66	negative	0.43	0.17	insignificant
Nabil	-0.81	negative	0.66	0.10	Significant

Source: Annex 5

Table 4.22, The correlation coefficient between Total Lending and NPA shows that there is positive relationship between these two variables. When the amount of Total Lending is increases the amount in NPA is more and vice versa.

KBL, NIBL and NSBIBL have the correlation coefficient of 0.77, 0.77 and 0.81 which are categorized as having high degree of positive correlation. And 60 %, 59 % and 65% of the total lending is affected by the NPA to the respective banks and rest is affected by the other factor. And the test so made for these banks are found to be significant as the correlation is greater than Probable error (P.E.) multiplied by six times.

NBL has the correlation coefficient of 0.45 which is categorized as having moderate degree of positive correlation. Only 21 % of the relationship is affected by the NPA in the increment of the total lending of the bank. As coefficient of determination of the bank found to be 21 % and remaining is affected by other factor. Further more, the value of P.E. is 0.10 for bank indicating a significant relationship between them.

SCBNL has the correlation coefficient of -066 which is categorized as having moderate degree of negative correlation. And 43 % of the total lending is affected by the NPA to the respective bank and rest is affected by the other factor. Since the P.E. for the SCBNL is more than the coefficient of correlation bank indicating insignificant.

Nabil has high degree of negative correlation coefficient i.e. higher the level of NPA would lower in the total lending and vice versa. 66 % of the total lending is affected by non performing assets and remaining 34 % is affected by other factors. Further more, the value of P.E. is 0.10 for bank indicating a significant relationship between them.

4.6 Major Findings

- J This study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on six commercial banks of Nepal, viz. Kumari, Nepal Investment, Laxmi, Nepal SBI, Standard Chartered and Nabil only, out of the 28 commercial banks operating in the banking industry of Nepal
- J In case of Kumari Bank Limited (KBL), total NPA and net profit has been found to be increasing, NPA to total lending ratio has been found increasing over the years as it is 19.32 % in the fiscal year 2004/05 and increased to 30.99 % in the fiscal year 2008/09. The total lending to total deposit ratio is found to be increasing over the five years period. But the net profit to total assets ratio is found to be decreasing over the years as it was -3.2 % in the fiscal year 2004/05 and decreased to -18.92 % in the fiscal year 2008/2009
- J In case of Nepal Investment Bank Limited (NIBL),), total NPA and net profit has been found to be increasing, NPA to total lending ratio has been found increasing over the years as it is 1.04 % in the fiscal year 2004/05 and increased to 1.27 % in the fiscal year 2008/09. The total lending to total deposit ratio is found to be decreasing over the five years period it is 74.0% in the fiscal year 2004/05 and slightly decreased to 73.40 %. The net profit to total assets ratio is found to be increasing over the years as it is 1.29 % in the fiscal year 2004/05 and is decreased to 1.50 % in the fiscal year 2008/09.
- J In case of Laxmi Bank Limited (LBL),), total NPA has been found to be increasing and net profit has been found to be decreasing, NPA to total lending ratio has been found increasing over the years as it is 12.26 % in the fiscal year 2004/05 and increased to 19.04 % in the fiscal year 2008/09. The

total lending to total deposit ratio is found to be decreasing over the five years period. But the net profit to total assets ratio is found to be decreasing over the years as it is 0.59 % in the fiscal year /05 and decreased to 00 % in the fiscal year 2008/09.

) The case of Nepal SBI Bank Limited (NSBINL),), total NPA and net profit has been found to be increasing, NPA to total lending ratio has been found to be slightly decreasing over the years as it is 6.32 % in the fiscal year 2004/05 and increased to 6.13 % in the fiscal year 2008/09. The total lending to total deposit ratio is found to be decreasing over the five years period. The net profit to total assets ratio is found to be increasing over the years as it is 0.58 % in the fiscal year 2004/05 and decreased to 0.90 % in the fiscal year 2008/09.

) In case of the Standard Chartered Bank Nepal Limited (SCBNL), total NPA has been decreased and net profit has been found to be increasing, NPA to total lending ratio has been found decreasing over the years as it is 12.10 % in the fiscal year 2004/05 and increased to 6.60 % in the fiscal year 2008/09. The total lending to total deposit ratio is found to be increasing over the five years period. The net profit to total assets ratio is found to be increasing over the years as it was 1.14 % in the fiscal year 2004/05 and decreased to 1.55 % in the fiscal year 2008/09.

) In case of Nabil Bank Limited (NBL),), total NPA of the bank has been found to be decreasing and net profit has been found to be increasing, NPA to total lending ratio have been found decreasing over the years as it is 7.14 % in the fiscal year 2004/05 and increased to 1.38 % in the fiscal year 2008/09. The total lending to total deposit ratio is found to be increasing over the five years period it is 50.31 % in the fiscal year 2004/05 and slightly decreased to 68.63 %. The net profit to total assets ratio is found to be increasing over the years as it is 1.53 % in the fiscal year 2004/05 and decreased to 3.23 % in the fiscal year 2008/09.

-) The percentage of performing assets to total assets of the KBL has found to be high among the sample banks, which is 67.09 % and the SCBNL has been found to be 45.04 % which is lower than other banks. Among the sample banks the percentage of non performing assets to total assets of the NIBL is found low which is 1.00 % and it is found to be 14.27 % of the KBL which is high.
-) The percentage of performing assets to total lending is found higher in NIBL and lower in KBL which is 98.43 % and 83.08 % respectively. The percentage of non performing assets to total lending is found lower in NIBL and higher in KBL which is 1.57 % and 16.59 % respectively among the sample banks.
-) The percentage of performing assets to total deposit of NIBL has been found to be 73.35 % which is higher than other banks and it is 50.14 % of the SCBNL. The percentage of non performing assets to total deposit is 1.19 % of NIBL and 14.75 % of KBL respectively which is lower and higher ratio.
-) The correlation coefficient between ROA and level of NPA is found to be negative for each of the bank except that the LBL under the study period. Among them KBL and Nabil bank has high degree of negative correlation i.e. the ROA is indirectly dependent on the level of NPA, higher the NPA the lower will be the returns on assets and vice versa..SCBNL have the moderate degree of negative correlation. Only 32 % of return is affected by level of NPA and remaining is affected by other factor. NSBIBL and NIBL have the low degree of correlation coefficient. Only 7 % and 17 % of NSBIBL and NIBL respectively on the profitability is affected by NPA and rest is affected by other factor. Only LBL have low degree of positive correlation coefficient.
-) The correlation coefficient between total lending and non performing assets of the commercial banks is found to be positive for each of the bank except that the SCBNL and Nabil Bank Limited under the study period. Among them KBL, NIBL and NSBIBL bank have high degree of positive correlation i.e. the total lending is directly dependent on the level of NPA, higher the NPA the more will be the total lending of banks and vice versa. LBL have the moderate degree of positive correlation. Only 66 % of lending is affected by level of NPA and remaining is affected by other factor. SCBNL has the moderate degree negative correlation coefficient. Nabil Bank Limited has high degree negative correlation

coefficient. 66% on the lending is affected by the level of NPA and remaining only 34 % is affected by other factors.

) The level of NPA is found to be highest for the LBL in the fiscal year 2007/08, which is Rs1832943785 where as the lowest, was found that of NIBL in the fiscal year 2004/05 which is Rs 42388116. In overall, the performance of the NABIL bank is found to be satisfactory as the level of NPA is gradually decreasing and net profit is gradually increasing over the years covered by this study period. Followed by NIBL, NSBIBL.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Although banking is a service, it has been a great business to the entrepreneurs in modern age. A commercial bank does same business to earn profit by its transaction. Generally, commercial bank does the functioning pool between the saving communities and need group of the society. They accept deposit from the public on the condition that they pay the deposit on demand or on short notice. The banks mobilize the funds to different need group on their demand of loan. Apart from accepting deposit, banks are engaged in the exchanging currency, operating other commercial transactions viz. purchase and discount of bills other financial instruments. Among the many items of transactions of the bank, accepting deposit and lending or giving loan and advances occupy major space in its transaction. So bank's major concern is found to be concentrated on the loan.

The assets of commercial bank indicate the manner in which the funds entrusted to the bank are employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kind of investment known as assets outstanding loan advance of the bank. These assets constitute primary source of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank, it is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fund, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts. Therefore, bank

should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances.

Despite of being loan and advances more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that amount of principal and interest is called non performing loan or assets. It means NPA could wreak branch profitability both through loss of interest income and need to write off the principal loan amount. Performing assets have multiple benefits to the company as well as to the society while non performing assets erode even existing capital of the bank.

Escalating level of NPAs has been becoming great problem in banking business in the world. In this context, Nepal can not be run off from this situation. The level of NPA in Nepalese banking system is very alarming. It is well known fact that the bank and financial institution in Nepal have been facing the problem of swelling non performing assets and the issue of becoming more and more unmanageable day by day. It is well known from different financial reports, newspapers and news that the total NPA in Nepalese banking system is about 32 Billion while it is very worse in case of two largest commercial banks RBB and NBL

Therefore, this study is concerned to find out the level of NPA and its effects on the returns on assets and the other factors of the Nepalese commercial bank. This study especially focuses on six commercial banks of Nepal, viz. Kumari, Nepal Investment, Laxmi, Nepal SBI, Standard Chartered and Nabil only, out of the 28 commercial banks operating in the banking industry of Nepal.

The level of NPA is found to be highest for the LBL in the fiscal year 2007/08, which is Rs1832943785 where as the lowest, was found that of NIBL in the fiscal year 2004/05 which is Rs 42388116. In overall, the performance of the NABIL bank is found to be satisfactory as the level of NPA is gradually decreasing and net profit is gradually increasing over the years covered by this study period. Followed by

NIBL, NSBIBL and SCBNL respectively. But in case of KBL and LBL the NPA is increasing and the net profit is gradually decreasing which is worse.

Standard Chartered Bank Nepal Limited and Nabil Bank Limited can able to decreased the level of NPA during the study period as a result they can able to increased to net profit of the banks. In case of Nepal Investment Bank Limited and Nepal SBI Bank Limited, they able to increase net profit of the bank although they can not control the level of non performing assets. The level of NPA also increasing during the study period. Unfortunately Kumari Bank Limited and Laxmi Bank Limited can not increase their net profit because of increment in the level of non performing assets. The level of non performing assets plays vital role in increment and decrement of profit of the commercial banks.

Every commercial Bank should follow the NRB directives. Commercial bank has to maintain loan loss provision as per NRB directives for the commercial bank. According to NRB directives, loan loss provision for pass loan should be 1 % of pass loan, for substandard loan it should be 25 % of substandard loan, for doubtful loan it should be 50 % of doubtful loan and for bad loan it should be 100 % of bad loan.

Every commercial bank is trying to exactly met the NRB's directives regarding non performing assets. But the sample banks of the study could not maintained loan loss provision perfectly accordance to the NRB directives for all classed. The bank maintained higher the loan loss provision requirement for one class loan when lower another class loan.

Nepal Investment Bank Limited could maintain loan loss provision, perfectly in accordance to NRB directives with compare to another sample bank of the study. Therefore it can conclude the NIBL able to maintain the loan loss provision. The remaining sample banks should give priority to maintain the loan loss provision as requirement as per NRB's directives.

The percentage of performing assets to total assets of the KBL has found to be high among the sample banks, which is 67.09 % and the SCBNL has been found to be 45.04 % which is lower than other banks. Among the sample banks the percentage

of non performing assets to total assets of the NIBL is found low which is 1.00 % and it is found to be 14.27 % of the KBL which is high.

The percentage of performing assets to total lending is found higher in NIBL and lower in KBL which is 98.43 % and 83.08 % respectively. The percentage of non performing assets to total lending is found lower in NIBL and higher in KBL which is 1.57 % and 16.59 % respectively among the sample banks.

The percentage of performing assets to total deposit of NIBL has been found to be 73.35 % which is higher than other banks and it is 50.14 % of the SCBNL. The percentage of non performing assets to total deposit is 1.19 % of NIBL and 14.75 % of KBL respectively which is lower and higher ratio.

The average ratio of pass loan to total loan of five years has been found higher in NIBL and lower in KBL which is 97.13 % and 80.85 % respectively. The average ratio of restructured loan to total loan of five years has been found higher in NSBIBL which is 6.08 %.

The average ratio of non performing assets to total loan of five years is found lower in Nepal Investment Bank Limited The average ratio of substandard loan to total loan and bad loan to total loan of five years has been found lower in NIBL and higher in KBL. The average ratio of doubtful loan to total loan of five years is found higher in NSBIBL and lower in NIBL.

5.2 Conclusion

-) The profitability of Nepalese commercial bank is affected by non performing assets of bank. When the level of non performing assets is increasing then the profit of the bank is decreasing and vice versa. Therefore the NPA and profitability of the bank have negative correlation.
-) High level of non performing assets not only decreases the profitability of the banks but also affects the entire financial as well as operational health of the organization. If the increasing NPA is not controlled immediately it will be the curse for the entire banking systems and as whole nation.
-) The level of NPA is found to be increasing in case of KBL, NIBL ,LBL ,and NSBIBL banks where as it is found to be decreasing in case of NBL, and

SCBNL during the study periods. The level of NPA is found to be highest for the LBL in the fiscal year 2007/08, which is Rs 1,832,943,785 where as the lowest, is found that of NIBL in the fiscal year 2004/05 which is Rs 42388116. In overall, the performance of the NABIL bank is found to be satisfactory as the level of NPA is gradually decreasing and net profit is gradually increasing over the years covered by this study period. But in case of KBL and LBL the NPA is increasing and the net profit is gradually decreasing, which is worse condition.

-) The percentage of performing assets to total assets of the KBL has found to be high among the sample banks, which is 67.09 % and the SCBNL has found to be 45.04 % which is lower than other banks. Among the sample banks the percentage of non performing assets to total assets of the NIBL is found low which is 1.00 % and it is found to be 14.27 % of the KBL which is high. The percentage of performing assets to total lending is found higher in NIBL and lower in KBL which is 98.43 % and 83.08 % respectively. The percentage of non performing assets to total lending is found lower in NIBL and higher in KBL which is 1.57 % and 16.59 % respectively among the sample banks. The percentage of performing assets to total deposit of NIBL have been found to be 73.35 % which is higher than other banks and it is 50.14 % of the SCBNL. The percentage of non performing assets to total deposit is 1.19 % of NIBL and 14.75 % of KBL respectively which are lower and higher ratio.
-) The correlation coefficient between ROA and level of NPA is found to be negative for each of the bank except that the LBL under the study period. Among them KBL and Nabil bank have high degree of negative correlation i.e. the ROA is indirectly dependent on the level of NPA, higher the NPA the lower will be the returns on assets and vice versa.
-) The correlation coefficient between ROA and level of NPA is found to be negative for each of the bank except that the LBL under the study period. Among them KBL and Nabil bank have high degree of negative correlation i.e. the ROA is indirectly dependent on the level of NPA, higher the NPA the lower will be the returns on assets and vice versa.
-) Every commercial Bank should follow the NRB directives. Commercial bank has to maintain loan loss provision as per NRB directives for the commercial bank. According to NRB directives, loan loss provision for pass loan should be 1

% of pass loan, for substandard loan it should be 25 % of substandard loan, for doubtful loan it should be 50 % of doubtful loan and for bad loan it should be 100 % of bad loan. More than or less than the specified loan loss provision is not good for each and every commercial banks.

) Every commercial bank is trying to nearly meet the NRB's directives regarding non performing assets. In overall, Nepal Investment Bank Limited could maintain loan loss provision, perfectly in accordance to NRB directives with compare to other sample banks KBL,LBL,NBL,NSBIBL,SCBNL of the study. It can be concluded that the NIBL is able to maintain the loan loss provision as per NRB's directives.

5.3 Recommendation

) All the commercial banks like SCBNL, NBL, LBL, NSBL, KBL, which are not able to maintain loan loss provision exactly are recommended to maintain loan loss provision as per NRB's directives regarding non performing assets. High as well as low level of provision is not good from the financial point of view.

) All the commercial banks are recommended to maintain loan loss provisions as per NRBS directives. Monitoring and supervision initiated by the central bank should be forward looking particularly in the credit management, where the more risk is associated. central bank also should adopts international standard for loan classification

) The commercial banks like KBL, LBL, whose NPA is increasing as a result net profit is also decreasing should take following necessary action to recover their bad loan as possible and to decrease the level of NPA.

- Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.
- Transparency should be maintained in the operation of the commercial bank. Loan must be given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaid even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore the bank should take proper

valuation of collateral so that the bank at least will be able to recover its principal and interest amount in case of failure of the borrower to repay the loan.

- Management inefficiency is one of the major causes behind high level of NPA of Nepalese commercial banks .hence all commercial banks are recommended to provide necessary training regarding loan management.
- Being loan a risky asset, all efforts should be made to have proper control in every steps of loan management. The banks should establish separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others.
- Political influences in the loan disbursement should be avoided as it may lead to worse condition to the bank as it may increase the non performing loan of the bank.
- Diversification of the loan should be managed by the individual banks. In the context of Nepal it is provided to the borrower so often go to the bank not in the new sector. Hence all the commercial banks are recommended to invest in diversified field of potential productive area of investment
- High level of non performing assets not only decreases the profitability of the banks but also affects the entire financial as well as operational health of the organization. If the increasing NPA is not controlled immediately it will be the curse for the entire banking systems and as whole nation. Hence all the commercial banks are recommended to control the level of non performing assets.

BIBLIOGRAPHY

- Baidhya, Shakespeare, (1996), *Banking Management*, Kathmandu, Monitor Nepal.
- Batra ,Sumant,(2003), *Developing Markets For Non Performing Assets In India* , Forum On Asian Insolvency Reform Fair, Seoul ,Korea.
- Bhandari, Dilli Raj, (2003), *Banking and insurance Principles and Practices*, Kathmandu.
- Bidani, S.N., (2003), *Managing Non -Performing Assets*, New Delhi, Vision Books publisher.
- Gupta, S.P., (1988), *Statistical Methods*, New Delhi: Sultan Chands and Sons.
- Joshi, P.R, (2061), *Research Methodology*, Kathmandu: Buddha Academic Publishers and Distributors (p) ltd..
- Kothari, C.R.(1984), *Quantitative Techniques*, 3rd revised Edition, New Delhi: Vikash Publishing House.
- Pandy, I.M, (1966), *Financial Management*, , New Delhi: Vikas Publishing house Pvt. Ltd.
- Panta ,Prem R, (1998), *Field Work Assignment and Report Writings*, Veena Academic Enterprises. Kathmandu
- Sharma P.K. and Chaudhary A.K., (2065), *Statistical Method*, Kathmandu: Khanal Books Prakashan.
- sharma,Puspa Raj, (2064),Research Methodology ,pokhara ,Manakamana Books And Statoiners
- Shrestha, K.N. And Manandhar K.D.(2064), *Statistics and Quantitative Techniques for Management*, Kathmandu: Valley Publishers.
- Subedi ,BhismaRaj, Poudel Surya,Neupane Dipendra, (2065), *Banking And Insurance, Asmita Publication*, Kathmandu, Nepal

Van Horne, J.C (2003), *Financial Management and Policy. 12th Edition*, New Delhi
Prentice Hall of India private Ltd. .

Weston, J. Fred, and Copeland, T,E (1992), *Managerial Finance*, Te Dryden Press ,New
York.

Wolfe, H.K. And Pant, P.R., *Social Science Research and Thesis Writing*, Kathmandu:
Buddha Academic Enterprises Pvt. Ltd.

Journals, Reports, Articles and Thesis

Adhikari Dev raj,(1993), *Evaluating The Financial Performance Of Nepal Bank Ltd*,
Master Degree Thesis T.U

Basyal, P, (2065), *Placing RBB and NBL Under management Contracts Rational and
Opposition* .An Article, the Kathmandu Post

Chetri, Sumana Khatri,(2009), *A Study On Non Performing Assets In Commercial banks Of
Nepal, Master Degree Thesis*, P.N Campus, T.U. Kathmandu

Dinesh kumar Khadka(2004), *Non Performing Assets of Nepalese Commercial Bank*,
Master Degree Thesis, Shanker Dev campus, T.U. Kathmandu.

Dali, Mandira, (2037), *The Evolution of Commercial Banking System in Nepal*, Nepal Bank
Patrika

Govinda Ghimire, (2005), *Non Performing Assets of Commercial Banks: Causes and
Effects*. Master Degree Thesis, Nepal Commerce campus, T.U. Kathmandu

Ghimire s, (2056), *Efficiency indicator of Commercial Bank*, an Article

Koirala Subash,(2006), *Non Performing Assets and Profitability of Commercial Banks in
Nepal, Master Degree Thesis*, Nepal Commerce campus T.U. Kathmandu.

Kumari Bank Limited, *Annual Reports on Shareholders*, (fiscal year 2004/05 to 2008/09)

Laxmi Bank Limited, *Annual Reports on Shareholders*, (fiscal year 2004/05 to 2007/08)

Mukharjee, S,(1998), *NPA's Of Banks To Go Up*, An Article, The Economics Times.

Nabil Bank Limited, *Annual Reports on Shareholders* (fiscal year 2004/05 to 2008/09)

Nepal Investment Bank Limited, *Annual Reports on Shareholders*, (fiscal year 2004/05 to 2008/09)

Nepal SBI Bank Limited, *Annual Reports on Shareholders*, (fiscal year 2004/05 to 2008/09)

Pradhan,p (2050), *NPA Some Suggestions To Take Them*, An article.

Shrestha N., (2004), *A Study on Non Performing Loan and Loan Loss Provisioning of Commercial Banks in*, Master Degree Thesis, Shanker Dev campus T.U. Kathmandu.

Shrestha ,R ,(2007), *Non Performing Assets Management Of Nabil Bank Limited*, Master Degree Thesis ,P.N Campus ,Pokhara.

Reddy, Prashant K,(2002), *A Comparative Study Of NPA In India In The Global Context*. A Report, Ahmedabad, India

Standard Chartered Bank Nepal Limited, *Annual Reports on Shareholders* (fiscal year 2004/05 to 2008/09)

Web sites:

<http://www.google.com>
<http://www.nrb.org.com.np>
<http://www.nabilbankltd.com>
<http://www.Standard Chartered bankltd.com>
<http://www.Nepal Investmentbankltd.com>

Annex 1(a)

KUMARI BANK LIMITED

Loan Loss provision maintained by Kumari Bank

Year	Pass loan (PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	% Provision for PL	S L	Provision for SL	% Provision for SL	D L	Provision for DL	% Provision for DL	B L	Provision For BL	% Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	1,843,850,969	27,160,388	1.47	286,648,537	88,165,637	30.76	140,207,147	70,507,433	50.29	14,785,697	14,326,572	96.89
2005/06	2,315,583,586	38,961,188	1.68	158,672,493	44,955,970	28.33	108,390,314	57,089,881	52.67	39,713,965	39,713,965	100.00
2006/07	2,985,450,017	40,588,948	1.36	16,643,478	3,920,970	23.56	43,877,357	22,459,321	51.19	176,777,500	175,381,457	99.21
2007/08	2,887,539,940	58,523,374	2.03	59,576,995	14,090,013	23.65	100,905,248	48,149,309	47.72	400,646,029	396,648,344	99.00
2008/09	2,777,631,557	28,171,642	1.01	52,430,788	12,686,798	24.20	26,561,929	12,999,715	48.94	1,260,250,073	1,257,178,999	99.76

Annex 1(b)

NEPAL INVESTMENT BANK LIMITED

Loan Loss provision maintained by Nepal Investment Bank

Year	Pass loan (PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	% Provision for PL	S L	Provision for SL	% Provision for SL	D L	Provision for DL	% Provision for DL	B L	Provision for BL	% Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	4,001,840,315	68,657,091	1.72	15,732,509	3,933,127	25.00	13,328,276	6,664,138	50.00	13,327,331	16,496,033	123.78
2005/06	4,938,390,206	80,423,477	1.63	41,954,709	10,488,677	25.00	38,055,772	19,027,886	50.00	31,180,622	31,180,622	100.00
2006/07	5,991,085,718	135,522,405	2.26	11,082,572	2,770,643	25.00	40,494,733	20,247,366	50.00	53,178,064	53,178,064	100.00
2007/08	7,453,205,999	74,532,060	1.00	4,408,738	1,102,184	25.00	1,977,471	988,735	50.00	122,421,536	122,421,536	100.00
2008/09	9,757,195,136	97,571,951	1.00	10,669,326	2,667,331	25.00	683,784	341,892	50.00	117,882,680	117,882,680	100.00

Annex 1(c)
LAXMI BANK LIMITED

Loan Loss provision maintained by Laxmi Bank

Year	Pass loan(PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	S L	Provision for SL	%Provision for SL	D L	Provision for DL	%Provision for DL	B L	Provision for BL	% Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	6,808,770,842	77,991,234	1.15	749,851,030	165,534,796	22.08	422,213,213	148,099,029	35.08	103,151,626	59,943,610	58.11
2005/06	6,948,236,345	117,313,510	1.69	166,127,332	42,010,116	25.29	577,611,361	288,805,680	50.00	269,536,019	265,401,569	98.47
2006/07	8,602,513,914	144,025,487	1.67	127,933,703	31,983,426	25.00	168,578,901	84,276,675	49.99	745,668,223	735,665,552	98.66
2007/08	7,793,969,752	194,937,095	2.50	120,628,590	30,157,147	25.00	160,777,414	80,388,707	50.00	1,551,537,781	1,533,740,211	98.85

Annex 1(d)

Nepal SBI Bank Limited

Loan Loss provision maintained by Nepal SBI Bank

Year	Pass loan(PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	B L	B L	B L	D L	Provision for DL	%Provision for DL	B L	Provision for BL	% Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	3,937,074,298	46,887,392	1.19	89,285,664	23,315,201	26.11	61,821,433	30,910,717	50.00	138,659,304	138,959,304	100.22
2005/06	4,144,846,125	49,521,539	1.19	121,498,598	27,225,697	22.41	166,868,350	87,053,186	52.17	138,580,134	123,639,748	89.22
2006/07	4,762,590,360	44,776,860	0.94	1,116,600	149,480	13.39	69,303,360	33,535,080	48.39	275,401,498	263,919,410	95.83
2007/08	5,886,791,147	55,863,325	0.95	11,912,170	2,494,642	20.94	6,515,490	1,020,691	15.67	422,589,350	414,128,352	98.00
2008/09	7,393,297,710	70,841,219	0.96	1,797,016	318,214	17.71	3,842,595	1,121,298	29.18	499,697,308	495,361,697	99.13

Annex 1(e)

STANDARD CHARTERED BANK NEPAL LIMITED

Loan Loss provision maintained by Standard Chartered Bank

Year	Pass loan(PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	B L	B L	B L	D L	Provision for DL	%Provision for DL	B L	Provision for BL	% Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	8,401,096,542	83,123,176	0.99	246,746,162	59,933,182	24.29	140,455,627	67,729,448	48.22	410,408,245	387,824,703	94.50
2005/06	9,566,445,731	96,016,810	1.00	224,318,058	62,628,890	27.92	375,017,864	184,229,769	49.13	493,503,565	476,711,113	96.60
2006/07	11,275,992,182	112,782,502	1.00	423,163,354	110,380,076	26.08	54,474,884	27,624,508	50.71	669,824,400	654,994,536	97.79
2007/08	11,821,694,843	117,648,411	1.00	69,549,651	41,866,119	60.20	242,116,379	114,358,189	47.23	689,681,290	686,498,503	99.54
2008/09	14,055,103,815	141,354,553	1.01	107,227,888	61,953,985	57.78	228,498,188	155,755,034	68.16	705,031,747	706,896,393	100.26

Annex 1(f)

Nabil Bank Limited

Loan Loss provision maintained by Nabil Bank												
Year	Pass loan (PL)			Sub-standard loan (SL)			Doubtful loan (DL)			Bad loan (BL)		
	PL	Provision for PL	%Provision for PL	SL	Provision for SL	%Provision for SL	DL	Provision for DL	%Provision for DL	BL	Provision for BL	%Provision for BL
	1	2	3=2/1*100	4	5	6=5/4*100	7	8	9=8/7*100	10	11	12=11/10*100
2004/05	7,244,970,881	140,918,813	1.95	260,277,239	62,681,307	24.08	230,936,540	114,424,624	49.55	65,663,903	45,929,143	69.95
2005/06	7,664,053,458	122,587,932	1.60	76,311,974	18,320,228	24.01	279,117,410	136,619,817	48.95	94,201,379	80,204,259	85.14
2006/07	8,261,978,118	127,733,990	1.55	22,139,923	5,140,970	23.22	65,552,224	32,384,357	49.40	198,986,773	193,404,870	97.19
2007/08	10,802,229,684	235,345,571	2.18	22,072,562	6,865,463	31.10	1,934,092	1,415,926	73.21	120,500,239	116,939,615	97.05
2008/09	13,096,157,779	214,301,301	1.64	62,665,914	42,573,904	67.94	29,565,952	13,896,064	47.00	90,392,614	85,467,837	94.55

Annex: 1(a)

Loan loss provisioning of Kumari Bank Ltd

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.47	1.68	1.36	2.03	1.01
Sub-standard loan	25% of sub-standard loan	30.76	28.33	23.56	23.65	24.20
Doubtful loan	50% of doubtful loan	50.29	52.67	51.19	47.72	48.94
Bad loan	100% of bad loan	96.89	100.00	99.21	99.00	99.76

Annex: 1(b)

Loan loss provisioning of Nepal Investment Bank Ltd

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.72	1.63	2.26	1.00	1.00
Sub-standard loan	25% of sub-standard loan	25.00	25.00	25.00	25.00	25.00
Doubtful loan	50% of doubtful loan	50.00	50.00	50.00	50.00	50.00
Bad loan	100% of bad loan	123.78	100.00	100.00	100.00	100.00

Annex: 1(c)**Loan loss provisioning of Laxmi Bank Ltd**

Types of loan	Requirement as per directives	Loan loss provision by the bank			
		2004/05	2005/06	2006/07	2007/08
Pass loan	1% of pass loan	1.15	1.69	1.67	2.50
Sub-standard loan	25% of sub-standard loan	22.08	25.29	25.00	25.00
Doubtful loan	50% of doubtful loan	35.08	50.00	49.99	50.00
Bad loan	100% of bad loan	58.11	98.47	98.66	98.85

Annex: 1(d)**Loan loss provisioning of Nepal SBI Bank Ltd**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.19	1.19	0.94	0.95	0.96
Sub-standard loan	25% of sub-standard loan	26.11	22.41	13.39	20.94	17.71
Doubtful loan	50% of doubtful loan	50.00	52.17	48.39	15.67	29.18
Bad loan	100% of bad loan	100.22	89.22	95.83	98.00	99.13

Annex: 1(e)**Loan loss provisioning of Standard Chartered Bank Ltd**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	0.99	1.00	1.00	1.00	1.01
Sub-standard loan	25% of sub-standard loan	24.29	27.92	26.08	60.20	57.78
Doubtful loan	50% of doubtful loan	48.22	49.13	50.71	47.23	68.16
Bad loan	100% of bad loan	94.50	96.60	97.79	99.54	100.26

Annex: 1(f)**Loan loss provisioning of Nabil Bank Ltd**

Types of loan	Requirement as per directives	Loan loss provision by the bank				
		2004/05	2005/06	2006/07	2007/08	2008/09
Pass loan	1% of pass loan	1.95	1.60	1.55	2.18	1.64
Sub-standard loan	25% of sub-standard loan	24.08	24.01	23.22	31.10	67.94
Doubtful loan	50% of doubtful loan	49.55	48.95	49.40	73.21	47.00
Bad loan	100% of bad loan	69.95	85.14	97.19	97.05	94.55

Annex 2 (a)**KUMARI BANK LIMITED****Calculation of Performing assets to Total Asset, Total Lending & Total Deposit**

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	3,061,650,033	2,285,492,350	2,646,106,974	1,843,850,969	60.22	80.68	69.68
2005/06	3,440,167,990	2,622,360,358	2,959,744,445	2,315,583,586	67.31	88.30	78.24
2006/07	4,364,204,711	3,222,748,353	3,777,605,223	2,985,450,017	68.41	92.64	79.03
2007/08	4,494,904,359	3,685,134,707	4,031,220,989	3,124,006,435	69.50	84.77	77.50
2008/09	4,259,343,044	4,321,586,777	4,786,440,191	2,982,343,987	70.02	69.01	62.31
				Summation	335.46	415.40	366.75
					67.09	83.08	73.35

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (a)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	3,061,650,033	2,285,492,350	2,646,106,974	441,641,381	14.42	19.32	16.69
2005/06	3,440,167,990	2,622,360,358	2,959,744,445	306,776,772	8.92	11.70	10.36
2006/07	4,364,204,711	3,222,748,353	3,777,605,223	237,298,336	5.44	7.36	6.28
2007/08	4,494,904,359	3,685,134,707	4,031,220,989	501,128,272	11.15	13.60	12.43
2008/09	4,259,343,044	4,321,586,777	4,786,440,191	1,339,242,790	31.44	30.99	27.98
				Summation	71.37	82.97	73.75
					14.27	16.59	14.75

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (b)

NEPAL INVESTMENT BANK LIMITED

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	6,607,170,724	4,044,228,431	5,466,609,805	4,001,840,315	60.57	98.95	73.21
2005/06	8,052,209,125	5,049,581,309	6,694,963,060	4,938,390,206	61.33	97.80	73.76
2006/07	9,608,570,861	6,095,841,087	8,063,902,086	5,991,076,718	62.35	98.28	74.30
2007/08	11,732,516,418	7,900,090,271	10,097,690,989	7,771,282,526	66.24	98.37	76.96
2008/09	15,959,284,687	10,136,254,448	13,802,444,988	10,007,018,658	62.70	98.73	72.50
				Summation	313.19	492.13	370.73
					62.64	98.43	74.15

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (b)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	6,607,170,724	4,044,228,431	5,466,609,805	42,388,116	0.64	1.05	0.78
2005/06	8,052,209,125	5,049,581,309	6,694,963,060	111,191,103	1.38	2.20	1.66
2006/07	9,608,570,861	6,095,841,087	8,063,902,086	104,764,369	1.09	1.72	1.30
2007/08	11,732,516,418	7,900,090,271	10,097,690,989	128,807,745	1.10	1.63	1.28
2008/09	15,959,284,687	10,136,254,448	13,802,444,988	129,235,790	0.81	1.27	0.94
				Summation	5.02	7.87	5.95
					1.00	1.57	1.19

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (c)

LAXMI BANK LIMITED

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	11,102,233,468	8,083,986,711	9,514,457,399	6,808,770,842	61.33	84.23	71.56
2005/06	11,918,508,528	7,961,511,057	10,591,081,091	6,948,236,456	58.30	87.27	65.60
2006/07	14,257,973,488	9,644,694,741	12,807,376,325	8,602,513,914	60.33	89.19	67.17
2007/08	13,277,150,678	9,626,913,537	12,125,578,259	7,793,969,752	58.70	80.96	64.28
				Summation	238.66	341.65	268.61
					59.67	85.41	67.15

Source: Annual Reports of concern bank fiscal year 2004/05 to 2007/08

Annex 2 (c)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	11,102,233,468	8,083,986,711	9,514,457,399	1,275,215,869	11.49	15.77	13.40
2005/06	11,918,508,528	7,961,511,057	10,591,081,091	1,013,274,712	8.50	12.73	9.57
2006/07	14,257,973,488	9,644,694,741	12,807,376,325	1,042,180,827	7.31	10.81	8.14
2007/08	13,277,150,678	9,626,913,537	12,125,578,259	1,832,943,785	13.81	19.04	15.12
				Summation	41.10	58.35	46.22
					10.28	14.59	11.56

Source: Annual Reports of concern bank fiscal year 2004/05 to 2007/08

Annex 2 (d)

Nepal SBI Bank Limited

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	7,021,141,146	4,584,394,939	5,572,470,018	4,294,628,538	61.17	93.68	77.07
2005/06	7,566,326,661	4,795,837,227	6,522,816,631	4,368,890,145	57.74	91.10	66.98
2006/07	8,440,405,808	5,531,833,738	7,198,327,428	5,186,012,280	61.44	93.75	72.04
2007/08	10,345,373,370	6,739,347,218	8,654,774,244	6,298,330,207	60.88	93.46	72.77
2008/09	13,035,839,124	8,241,456,544	11,002,040,633	7,736,119,625	59.35	93.87	70.32
				Summation	300.58	465.85	359.18
					60.12	93.17	71.84

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (d)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	7,021,141,146	4,584,394,939	5,572,470,018	289,766,401	4.13	6.32	5.20
2005/06	7,566,326,661	4,795,837,227	6,522,816,631	426,947,082	5.64	8.90	6.55
2006/07	8,440,405,808	5,531,833,738	7,198,327,428	345,821,458	4.10	6.25	4.80
2007/08	10,345,373,370	6,739,347,218	8,654,774,244	441,017,011	4.26	6.54	5.10
2008/09	13,035,839,124	8,241,456,544	11,002,040,633	505,336,919	3.88	6.13	4.59
				Summation	22.01	34.15	26.24
					4.40	6.83	5.25

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (e)

STANDARD CHARTERED BANK NEPAL LIMITED

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	20,672,433,854	9,557,138,004	18,619,375,076	8,401,096,542	40.64	87.90	45.12
2005/06	23,355,223,128	10,844,598,988	21,045,086,740	9,751,759,501	41.75	89.92	46.34
2006/07	24,817,369,870	12,919,630,994	22,010,332,984	11,772,168,356	47.44	91.12	53.48
2007/08	27,418,157,873	13,451,168,267	24,814,011,984	12,449,820,947	45.41	92.56	50.17
2008/09	29,460,389,672	15,761,976,082	26,490,851,640	14,721,218,259	49.97	93.40	55.57
				Summation	225.21	454.90	250.69
					45.04	90.98	50.14

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (e)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	20,672,433,854	9,557,138,004	18,619,375,076	1,156,041,462	5.59	12.10	6.21
2005/06	23,355,223,128	10,844,598,988	21,045,086,740	1,092,839,487	4.68	10.08	5.19
2006/07	24,817,369,870	12,919,630,994	22,010,332,984	1,147,462,638	4.62	8.88	5.21
2007/08	27,418,157,873	13,451,168,267	24,814,011,984	1,001,347,320	3.65	7.44	4.04
2008/09	29,460,389,672	15,761,976,082	26,490,851,640	1,040,757,823	3.53	6.60	3.93
				Summation	22.08	45.10	24.58
					4.42	9.02	4.92

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (f)

Nabil Bank Limited

Calculation of Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Performing assets	% of PA to TA	% of PA to TL	% of PA to TD
	T.A (1)	T.L.(2)	T.D. (3)	P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	17,629,252,392	7,801,848,563	15,506,428,215	7,244,970,881	41.10	92.86	46.72
2005/06	16,562,624,992	8,113,684,221	13,447,661,064	7,664,053,458	46.27	94.46	56.99
2006/07	16,745,486,638	8,548,657,038	14,119,032,115	8,261,978,118	49.34	96.65	58.52
2007/08	17,186,330,816	10,946,736,577	14,586,608,707	10,802,229,684	62.85	98.68	74.06
2008/09	22,329,971,078	13,278,782,259	19,347,399,440	13,096,157,779	58.65	98.62	67.69
				Summation	258.21	481.27	303.98
					51.64	96.25	60.80

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 2 (f)

Calculation of Non-Performing assets to Total Asset, Total Lending & Total Deposit

Year	Total assets	Total Lending	Total Deposit	Non Performing assets	% of NPA to TA	% of NPA to TL	% of NPA to TD
	T.A (1)	T.L.(2)	T.D. (3)	N.P.A. (4)	(4/1*100)	(4/2*100)	(4/3*100)
2004/05	17,629,252,392	7,801,848,563	15,506,428,215	556,877,682	3.16	7.14	3.59
2005/06	16,562,624,992	8,113,684,221	13,447,661,064	449,630,763	2.71	5.54	3.34
2006/07	16,745,486,638	8,548,657,038	14,119,032,115	286,678,920	1.71	3.35	2.03
2007/08	17,186,330,816	10,946,736,577	14,586,608,707	144,506,893	0.84	1.32	0.99
2008/09	22,329,971,078	13,278,782,259	19,347,399,440	182,624,480	0.82	1.38	0.94
				Summation	9.24	18.73	10.90
					1.85	3.75	2.18

Source: Annual Reports of concern bank fiscal year 2004/05 to 2008/09

Annex 3 (a)

KUMARI BANK LIMITED

Year	Performing Assets				Non Performing Assets						
	Pass loan	PL/TL x 100	Restructured Loan	RL/TL x 100	Sub-standard Loan	SL/TL x 100	Doubtful loan	DL/TL x 100	Bad Loan	BL/TL x 100	Total Loan
2004/05	1,843,850,969	80.68	0	0.00	286,648,537	12.54	140,207,147	6.13	14,785,697	0.65	2,285,492,350
2005/06	2,315,583,586	88.30	0	0.00	158,672,493	6.05	108,390,314	4.13	39,713,965	1.51	2,622,360,358
2006/07	2,985,450,017	92.64	0	0.00	16,643,478	0.52	43,877,357	1.36	176,777,500	5.49	3,222,748,353
2007/08	2,887,539,940	78.36	236,466,495	6.42	59,576,995	1.62	100,905,248	2.74	400,646,029	10.87	3,685,134,707
2008/09	2,777,631,557	64.27	204,712,430	4.74	52,430,788	1.21	26,561,929	0.61	1,260,250,073	29.16	4,321,586,777
Sum	12,810,056,069	404.24	441,178,925	11.15	573,972,291	21.94	419,941,995	14.98	1,892,173,264	47.68	16,137,322,545
Average		80.85		5.58		4.39		3.00		9.54	

Annex 3 (b)

NEPAL INVESTMENT BANK LIMITED

Year	Performing Assets				Non Performing Assets						
	Pass loan	PL/TL x 100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL x 100	Total Loan
2004/05	4,001,840,315	98.95		0.00	15,732,509	0.39	13,328,276	0.33	13,327,331	0.33	4,044,228,431
2005/06	4,938,390,206	97.80		0.00	41,954,709	0.83	38,055,772	0.75	31,180,622	0.62	5,049,581,309
2006/07	5,991,085,718	98.28		0.00	110,822,572	1.82	40,494,733	0.66	53,178,064	0.87	6,095,841,087
2007/08	7,453,205,999	94.34	318,076,527	4.03	4,408,738	0.06	1,977,471	0.03	122,421,536	1.55	7,900,090,271
2008/09	9,757,195,136	96.26	249,823,522	2.46	10,669,326	0.11	683,784	0.01	117,882,680	1.16	10,136,254,448
Sum	32,141,717,374	485.64	567,900,049	6.49	183,587,854	3.20	94,540,036	1.78	337,990,233	4.53	33,225,995,546
Average		97.13		3.25		0.64		0.36		0.91	

Annex 3 (c)

LAXMI BANK LIMITED

Year	Performing Asset				Non Performing Asset						
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL*100	Total Loan
2004/05	6,808,770,842	84.23		0.0	749,851,030	9.28	422,213,213	5.22	103,151,626	1.28	8,083,986,711
2005/06	6,948,236,345	87.27		0.0	166,127,332	2.09	577,611,361	7.26	269,536,019	3.39	7,961,511,057
2006/07	8,602,513,914	89.19		0.0	127,933,703	1.33	168,578,901	1.75	745,668,223	7.73	9,644,694,741
2007/08	7,793,969,752	80.96		0.0	120,628,590	1.25	160,777,414	1.67	1,551,537,781	16.12	9,626,913,537
Sum	30,153,490,853	341.65		0.0	1,164,540,655	13.94	1,329,180,889	15.90	2,669,893,649	28.51	35,317,106,046
Average		85.41		0.0		3.49		3.97		7.13	

Annex 3 (d)
Nepal SBI Bank Limited

Year	Performing Asset				Non Performing Asset						Total Loan
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Loss Loan	BL/TL*100	
2004/05	3,937,074,298	85.88	357,554,240	7.80	89,285,664	1.95	61,821,433	1.35	138,659,304	3.02	4,584,394,939
2005/06	4,144,846,125	86.43	224,044,020	4.67	121,498,598	2.53	166,868,350	3.48	138,580,134	2.89	4,795,837,227
2006/07	4,762,590,360	86.09	423,421,920	7.65	1,116,600	0.02	69,303,360	1.25	275,401,498	4.98	5,531,833,738
2007/08	5,886,791,147	87.35	411,539,060	6.11	11,912,170	0.18	6,515,490	0.10	422,589,350	6.27	6,739,347,217
2008/09	7,393,297,710	89.71	342,821,915	4.16	1,797,016	0.02	3,842,595	0.05	499,697,308	6.06	8,241,456,544
Sum	26,124,599,640	435.46	1,759,381,155	30.39	225,610,048	4.70	308,351,228	6.22	1,474,927,594	23.23	29,892,869,665
		87.09		6.08		0.94		1.24		4.65	

Annex 3 (e)

STANDARD CHARTERED BANK NEPAL LIMITED

Year	Performing Asset				Non Performing Asset						Total Loan
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL*100	
2004/05	8,401,096,542	87.90	358,431,428	3.75	246,746,162	2.58	140,455,627	1.47	410,408,245	4.29	9,557,138,004
2005/06	9,566,445,731	88.21	185,313,770	1.71	224,318,058	2.07	375,017,864	3.46	493,503,565	4.55	10,844,598,988
2006/07	11,275,992,182	87.28	496,176,174	3.84	423,163,354	3.28	54,474,884	0.42	669,824,400	5.18	12,919,630,994
2007/08	11,821,694,843	87.89	628,126,104	4.67	69,549,654	0.52	242,116,379	1.80	689,681,290	5.13	13,451,168,267
2008/09	14,055,103,815	89.17	666,114,444	4.23	107,227,888	0.68	228,498,188	1.45	705,031,747	4.47	15,761,976,082
Sum	55,120,333,113	440.45	2,334,161,920	18.20	1,071,005,116	9.12	1,040,562,942	8.60	2,968,449,247	23.63	62,534,512,335
Average		88.09		3.64		1.82		1.72		4.73	

Annex 3 (f)
Nabil Bank Limited

Year	Performing Asset				Non Performing Asset						
	Pass loan	PL/TL*100	Restructured Loan	RL/TL*100	Sub-standard Loan	SL/TL*100	Doubtful loan	DL/TL*100	Bad Loan	BL/TL*100	Total Loan
2004/05	7,244,970,881	92.86		0.00	260,277,239	3.34	230,936,540	2.96	65,663,903	0.84	7,801,848,563
2005/06	7,664,053,458	94.46		0.00	76,311,974	0.94	279,117,410	3.44	94,201,379	1.16	8,113,684,221
2006/07	8,261,978,118	96.65		0.00	22,139,923	0.26	65,552,224	0.77	198,986,773	2.33	8,548,657,038
2007/08	10,668,029,166	97.45	134,200,518	1.23	22,072,562	0.20	1,934,092	0.02	120,500,239	1.10	10,946,736,577
2008/09	13,010,864,147	97.98	85,293,632	0.64	62,665,914	0.47	29,565,952	0.22	90,392,614	0.68	13,278,782,259
Sum	46,849,895,770	479.40	219,494,150	1.87	443,467,612	5.21	607,106,218	7.41	569,744,908	6.11	48,689,708,658
Average		95.88		0.93		1.04		1.48		1.22	

ANNEX 4(a)

**Calculation of Karl person's correlation coefficient between ROA and
NPA of KUMARI BANK LIMITED**

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	-3.2	19.32	10.24	373.2624	-61.824
2005/06	2.59	11.7	6.7081	136.89	30.303
2006/07	0.43	7.36	0.1849	54.1696	3.1648
2007/08	-4.38	15.23	19.1844	231.9529	-66.707
2008/09	-18.92	30.99	357.966	960.3801	-586.33
Sum	X = -23.48	Y = 84.6	X ² = 394.284	Y ² = 1756.655	XY = -681.39

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \cdot (-681.39) - (-23.48) \cdot 84.6}{\sqrt{5 \cdot 394.284 - (-23.48)^2} \cdot \sqrt{5 \cdot 1756.655 - (84.6)^2}} \\
 &= \frac{-1420.56}{1519.625} = -0.93
 \end{aligned}$$

$$\begin{aligned} \text{Probable error (P.E.)} &= \frac{0.6745(1 Z r^2)}{\sqrt{n}} \\ &= \frac{0.6745 f_1 Z (Z0.93 \hat{A})}{\sqrt{5}} \\ &= \frac{0.0851}{2.2361} = 0.0380 \end{aligned}$$

ANNEX 4(b)

Calculation of Karl person's correlation coefficient between ROA and NPA of Nepal Investment Bank Limited

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	1.29	1.04	1.6641	1.0816	1.3416
2005/06	1.17	2.2	1.3689	4.84	2.574
2006/07	1.49	1.7	2.2201	2.89	2.533
2007/08	1.45	1.6	2.1025	2.56	2.32
2008/09	1.5	1.27	2.25	1.6129	1.905
Sum	X = 6.9	Y = 7.81	X ² = 9.6056	Y ² = 12.9845	XY = 10.6736

Karl Person's correlation coefficient (r)

$$\begin{aligned} &= \frac{N \cdot \phi XY Z \phi X \cdot \phi Y}{\sqrt{N \cdot \phi X^2 Z (\phi X)^2} \cdot \sqrt{N \cdot \phi Y^2 Z (\phi Y)^2}} \\ &= \frac{5 | 10.6736 Z 6.90 | 7.81}{\sqrt{5 | 9.6056 Z (6.90)^2} \sqrt{5 | 12.9856 Z (7.81)^2}} \\ &= \frac{Z0.521}{1.2811} = -0.41 \end{aligned}$$

$$\begin{aligned} \text{Probable error (P.E.)} &= \frac{0.6745(1 Z r^2)}{\sqrt{n}} \\ &= \frac{0.6745 f_1 Z (Z0.41 \hat{A})}{\sqrt{5}} = \frac{0.5630}{2.2361} = 0.2518 \end{aligned}$$

ANNEX 4(c)

**Calculation of Karl person's correlation coefficient between ROA and
NPA of Laxmi Bank Limited**

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	0.59	12.26	0.3481	150.3076	7.2334
2005/06	0.6	12.73	0.36	162.0529	7.638
2006/07	0.02	10.81	0.0004	116.8561	0.2162
2007/08	0	19.04	0	362.5216	0
2008/09	0	0	0	0	0
Sum	X = 1.21	Y = 54.84	X ² = 0.7085	Y ² = 791.7382	XY = 15.0876

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{4 \mid 15.0876 - 1.21 \mid 54.84}{\sqrt{4 \mid 0.7085 - (1.21)^2} \sqrt{4 \mid 791.7382 - (54.84)^2}} \\
 &= \frac{6.006}{14.7830} = -0.41
 \end{aligned}$$

Probable error (P.E.) = $\frac{0.6745(1 - r^2)}{\sqrt{n}}$

$$\begin{aligned}
 &= \frac{0.6745 \mid 1 - (0.41)^2}{\sqrt{4}} \\
 &= \frac{0.5632}{2} = 0.2816
 \end{aligned}$$

ANNEX 4(d)

**Calculation of Karl person's correlation coefficient between ROA and NPA of
Nepal SBI Bank Limited**

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	0.58	6.32	0.3364	39.9424	3.6656
2005/06	0.64	8.9	0.4096	79.21	5.696
2006/07	0.72	6.25	0.5184	39.0625	4.5
2007/08	0.55	6.54	0.3025	42.7716	3.597
2008/09	0.9	6.13	0.81	37.5769	5.517
Sum	X = 3.39	Y = 34.14	X ² = 2.3769	Y ² = 238.5634	XY =22.9756

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 22.9756 - 3.39 \mid 34.14}{\sqrt{5 \mid 2.3769 - (3.39)^2} \sqrt{5 \mid 238.5634 - (34.14)^2}} \\
 &= \frac{0.8566}{3.2716} = -0.26
 \end{aligned}$$

$$\text{Probable error (P.E.)} = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

$$\begin{aligned}
 &= \frac{0.6745 \mid 1 - (0.26)^2}{\sqrt{5}} \\
 &= \frac{0.6283}{2.2361} = 0.2810
 \end{aligned}$$

ANNEX 4(e)

**Calculation of Karl person's correlation coefficient between ROA and NPA of
STANDARD CHARTERED BANK NEPAL LIMITED**

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	1.14	12.1	1.2996	146.41	13.794
2005/06	0.91	10.08	0.8281	101.6064	9.1728
2006/07	1.06	8.88	1.1236	78.8544	9.4128
2007/08	1.11	7.44	1.2321	55.3536	8.2584
2008/09	1.55	6.6	2.4025	43.56	10.23
Sum	X = 5.77	Y = 45.1	X ² = 6.8859	Y ² = 425.7844	XY 50.868

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 50.868 - \sum 5.77 \mid 45.10}{\sqrt{5 \mid 6.8859 - (\sum 5.77)^2} \sqrt{5 \mid 425.7844 - (\sum 45.10)^2}} \\
 &= \frac{5.887}{10.3864} = -0.57
 \end{aligned}$$

Probable error (P.E.) = $\frac{0.6745(1 - r^2)}{\sqrt{n}}$

$$\begin{aligned}
 &= \frac{0.6745 \mid (1 - (0.57)^2)}{\sqrt{5}} \\
 &= \frac{0.4578}{2.2361} = 0.2047
 \end{aligned}$$

ANNEX 4(f)

**Calculation of Karl person's correlation coefficient between ROA and NPA of
Nabil Bank Limited**

X = Net Profit to Total Assets (ROA)

Y = NPA to Total Lending (NPA)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	1.53	7.14	2.3409	50.9796	10.9242
2005/06	2.43	5.54	5.9049	30.6916	13.4622
2006/07	2.73	3.35	7.4529	11.2225	9.1455
2007/08	3.06	1.32	9.3636	1.7424	4.0392
2008/09	3.23	1.38	10.4329	1.9044	4.4574
Sum	X = 12.98	Y = 18.73	X ² = 35.4952	Y ² = 96.5405	XY = 42.0285

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 42.0285 - \sum 12.98 \mid 18.73}{\sqrt{5 \mid 35.4952 - (\sum 12.98)^2} \sqrt{5 \mid 96.5405 - (\sum 18.73)^2}} \\
 &= \frac{32.9729}{34.4445} = -0.96
 \end{aligned}$$

Probable error (P.E.) = $\frac{0.6745(1 - r^2)}{\sqrt{n}}$

$$\begin{aligned}
 &= \frac{0.6745 \mid (1 - (0.96)^2)}{\sqrt{5}} \\
 &= \frac{0.0564}{2.2361} = 0.0252
 \end{aligned}$$

ANNEX 5(a)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of KUMARI BANK LIMITED**

X = Total lending of Bank

Y = Total NPA of Bank

Amount in 100 million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	22.85	4.42	522.1225	19.5364	100.997
2005/06	26.22	3.07	687.4884	9.4249	80.4954
2006/07	32.22	2.37	1038.1284	5.6169	76.3614
2007/08	36.85	5.61	1357.9225	31.4721	206.7285
2008/09	43.21	13.39	1867.1041	179.292	578.5819
Sum	X = 161.35	Y = 28.86	X ² = 5472.7659	Y ² = 245.342	XY = 1043.1642

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 | 1043.1642 | - 161.35 | 28.86}{\sqrt{5 | 5472.7659 | - (161.35)^2} \sqrt{5 | 245.342 | - (28.86)^2}} \\
 &= \frac{559.26}{723.722} = 0.77
 \end{aligned}$$

Probable error (P.E.) = $\frac{0.6745(1 - r^2)}{\sqrt{n}}$

$$= \frac{0.6745(1 - (0.77)^2)}{\sqrt{5}}$$

$$= \frac{0.2717}{2.2361} = 0.1215$$

ANNEX 5(b)

Calculation of Karl person's correlation coefficient between Total Lending and Total NPA of NEPAL INVESTMENT BANK LIMITED

X = Total lending of Bank

Y = Total NPA of Bank

Amount in 10

million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	404.42	4.24	163555.54	17.98	1714.74
2005/06	504.96	11.12	254984.60	123.65	5615.16
2006/07	609.58	10.48	371587.78	109.83	6388.40
2007/08	790.01	12.88	624115.80	165.89	10175.33
2008/09	1036.62	12.92	1074581.02	166.93	13393.13
Sum	X = 3345.59	Y = 51.64	X ² =2488824.74	Y ² =584.28	XY = 37286.75

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 37286.75 - 3345.59 \mid 51.64}{\sqrt{5 \mid 2488824.74 - (3345.59)^2} \sqrt{5 \mid 584.28 - (51.64)^2}} \\
 &= \frac{13667.50}{17852.21} = 0.77
 \end{aligned}$$

$$\text{Probable error (P.E.)} = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

$$= \frac{0.6745 \mid (1 - (0.77)^2)}{\sqrt{5}}$$

$$= \frac{0.2792}{2.2361} = 0.1248$$

ANNEX 5 (c)

**Calculation of Karl person's correlation coefficient between Total Lending and
Total NPA of LAXMI BANK LIMITED**

X = Total lending of Bank

Y = Total NPA of Bank

Amount in 100 million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	80.84	12.75	6535.1056	162.563	1030.71
2005/06	79.62	10.13	6339.3444	102.617	806.5506
2006/07	96.45	10.42	9302.6025	108.576	1005.009
2007/08	96.27	18.33	9267.9129	335.989	1764.6291
Sum	X = 353.18	Y = 51.63	X ² = 31444.9654	Y ² = 709.745	XY = 4606.8987

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{4 \mid 4606.8987 - 353.18 \mid 51.63}{\sqrt{4 \mid 31444.9654 - (353.18)^2} \sqrt{4 \mid 709.745 - (51.63)^2}} \\
 &= \frac{192.911}{425.329} = 0.45
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error (P.E.)} &= \frac{0.6745(1 - r^2)}{\sqrt{n}} \\
 &= \frac{0.6745 \sqrt{1 - (0.45)^2}}{\sqrt{4}} = \frac{0.53575}{2} = 0.2679
 \end{aligned}$$

ANNEX 5 (d)

Calculation of Karl person's correlation coefficient between Total Lending and Total NPA of Nepal SBI Bank Limited

X = Total lending of Bank

Y = Total NPA of Bank

Amount in 100 million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	45.84	2.9	2101.31	8.41	132.936
2005/06	47.96	4.27	2300.16	18.2329	204.789
2006/07	55.32	3.46	3060.3	11.9716	191.407
2007/08	67.39	4.41	4541.41	19.4481	297.19
2008/09	82.41	5.05	6791.41	25.5025	416.171
Sum	X = 298.92	Y = 20.09	X ² = 18794.6	Y ² = 83.56	XY = 1242.49

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \cdot 1242.49 - 298.92 \cdot 20.09}{\sqrt{5 \cdot 18794.6 - (298.92)^2} \cdot \sqrt{5 \cdot 83.56 - (20.09)^2}} \\
 &= \frac{207.161}{256.284} = 0.81
 \end{aligned}$$

$$\text{Probable error (P.E.)} = \frac{0.6745 \sqrt{1 - r^2}}{\sqrt{n}}$$

$$= \frac{0.6745 \sqrt{1 - (0.81)^2}}{\sqrt{5}}$$

$$= \frac{0.2338}{2.2361} = 0.1046$$

ANNEX 5(e)

Calculation of Karl person's correlation coefficient between Total Lending and Total NPA of STANDARD CHARTERED BANK NEPAL LIMITED

X = Total lending of Bank

Y = Total NPA of Bank

Amount 100 in million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	95.57	11.56	9133.6249	133.634	1104.7892
2005/06	108.44	10.93	11759.2336	119.465	1185.2492
2006/07	129.2	11.47	16692.64	131.561	1481.924
2007/08	134.51	10.01	18092.9401	100.2	1346.4451
2008/09	157.62	10.4	24844.0644	108.16	1639.248
Sum	X = 625.34	Y = 54.37	X ² =80522.503	Y ² =593.02	XY = 6757.6555

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 6767.6555 - \sum 625.34 \mid 54.37}{\sqrt{5 \mid 80522.503 - (\sum 625.34)^2} \sqrt{5 \mid 593.02 - (\sum 54.37)^2}} \\
 &= \frac{211.458}{322.597} = -0.66
 \end{aligned}$$

Probable error (P.E.) = $\frac{0.6745(1 - r^2)}{\sqrt{n}}$

$$= \frac{0.6745(1 - (0.66)^2)}{\sqrt{5}}$$

$$= \frac{0.38469}{2.2361} = 0.1720$$

ANNEX 5(f)

Calculation of Karl person's correlation coefficient between Total Lending and Total NPA of Nabil Bank Limited

X = Total lending of Bank

Y = Total NPA of Bank

Amount 100 in million

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	78.02	5.56	6087.12	30.9136	433.7912
2005/06	81.14	4.5	6583.7	20.25	365.13
2006/07	85.49	2.87	7308.54	8.2369	245.3563
2007/08	109.47	1.45	11983.68	2.1025	158.7315
2008/09	132.79	1.82	17633.18	3.3124	241.6778
Sum	X = 486.91	Y = 16.2	X ² = 49596.23	Y ² = 64.8154	XY = 1444.687

Karl Person's correlation coefficient (r)

$$\begin{aligned}
 &= \frac{N \cdot \sum XY - \sum X \cdot \sum Y}{\sqrt{N \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{N \cdot \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 | 1444.687 - 486.91 | 16.2}{\sqrt{5 | 49596.23 - (486.91)^2} \sqrt{5 | 64.8154 - (16.2)^2}} \\
 &= \frac{2664.51}{819.652} = -0.81
 \end{aligned}$$

$$\text{Probable error (P.E.)} = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

$$= \frac{0.6745 | 1 - (0.81)^2}{\sqrt{5}}$$

$$= \frac{0.2312}{2.2361} = 0.1034$$